



SOUND TRANSIT 2005 ANNUAL REPORT

Plans, Builds & Operates

Financial and Operating Highlights

In 2005 Sound Transit provided more connections, to more places, for more people. Five transit projects were completed and 47 were under construction. Planning for expansion of the transit system (Sound Transit 2) gained momentum and ridership grew 8 percent with additional Sounder round-trip service and rising gas prices encouraging more people to examine public transportation options.

In 2005:

- Ridership increased by 8 percent reaching 10.969 million riders, with Sounder ridership increasing by 33 percent.
- Tax revenues grew to \$308.3 million, an increase of more than 5 percent for the second year in a row and providing a stable revenue base for the region's capital program.
- Annual capital spending grew by 17 percent to \$547.9 million, as construction activity increased on Central Link.

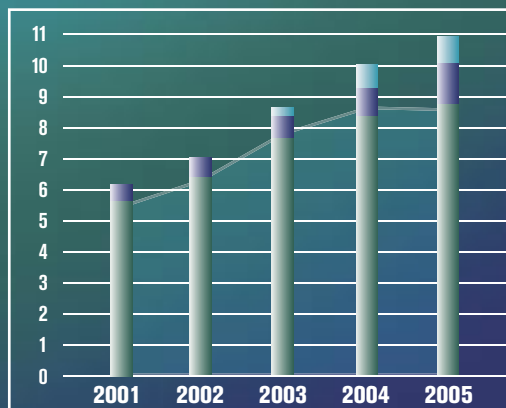
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COVER: Tacoma Link light rail trains, ST Express regional buses and Sounder commuter trains carry thousands of riders every day.

Ridership 2000 - 2005

(Number of boardings/Unaudited)



Transit Modes

- Link light rail
- Commuter rail
- Regional Express

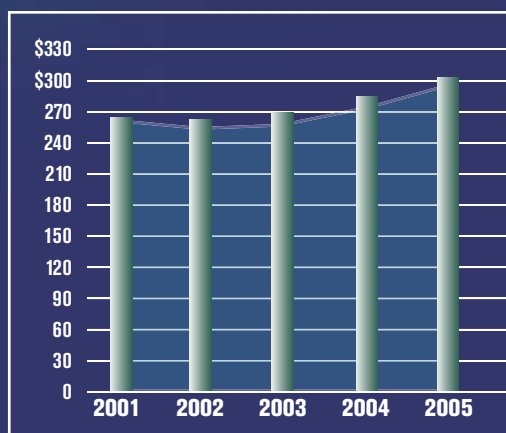
Annual Adopted Budget ¹

In millions

1. Source 2004 and prior: ST Express Service Implementation Plan and Sounder Business Plan.

Tax revenue collection history

(Unaudited)

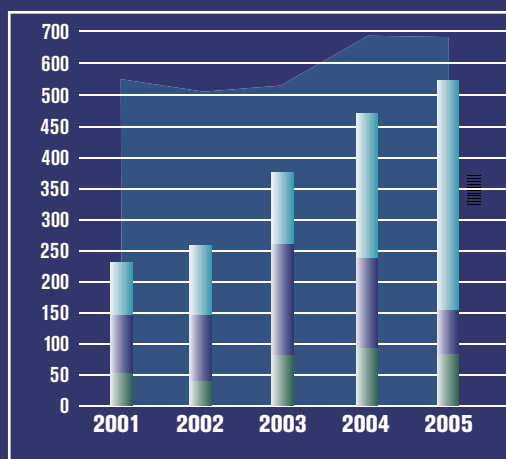


Key

- Actual
- Annual Adopted Budget

\$ in millions

Capital expenditures by line of business (Unaudited)



Transit Modes

- Link light rail
- Commuter rail
- Regional Express

Annual Adopted Budget ¹

\$ in millions

1. Excludes ongoing capital expenditures related to Transportation Services, Transit Vision, Administrative Capital and Transit-oriented Development.



Central Link light rail • Sounder commuter rail • ST Express regional bus • Tacoma Link light rail

Sound Transit **plans,**
builds, and **operates** regional transit systems
and services to improve **mobility**
for Central Puget Sound.

—Sound Transit Mission Statement



The lights shine down on an ST Express bus at the Bellevue Transit Center, one of the newest transit centers in the Puget Sound region.



The SODO light rail station just south of downtown Seattle is nearly ready for trains and passengers. Trains will begin serving this station in 2009.



John Ladenburg, Sound Transit Board Chair, speaking at a Link light rail event.

In 2005, we carried more riders than any time in our history. Nearly 11 million, in fact.

To do so required running more than a million miles of ST Express bus service, a choice of three transportation modes and about 340 dedicated, capable employees.

2006 will see the number of riders jump to more than 11 million as more and more people choose Sound Transit as the way to get where they want to go.

Obviously, we've made great strides. Still, it's clear we're not where we want to be yet. I don't think there's an issue of greater importance to Central Puget Sound than continuing to invest in our regional transportation system. Not just for today, or even tomorrow, but for the next 100 years.

When I think about our future, I'm reminded of the reality that in the next 25 years, another 1.2 million people are expected to be living here. That population growth, coupled with increased employment, is a formula for transportation congestion.

That's why Sound Transit spent much of 2005 planning for system expansion. The result of those discussions and debates is Sound Transit 2. Following a number of public meetings, the Sound Transit Board in 2005 adopted an updated Long Range Plan to 2030, which is the blueprint for how the regional transit system will develop and expand.

I believe there's a general realization in this region that maintaining our world-class quality of life, environment and economy are connected to the choices we make about transportation. That's why we're working hard on a balanced package of transit and road improvements to put before voters in 2007.

Future generations are relying on us.

John Ladenburg



Passengers line up to board a Sounder train at the Kent Station in South King County.



Dusk descends on a Tacoma Link light rail train as it brings passengers into the Tacoma Dome Station.





Joni Earl, Sound Transit CEO, Vernon Stoner, Deputy CEO, (behind) and Ahmad Fazel, Link light rail director, (right) observe construction at the Beacon Hill tunnel west portal.

(Opposite page) The elevated light rail line rising near Highway 518 on the way to Sea-Tac Airport is changing the face of Tukwila. Photo courtesy of Ellen M. Banner/The Seattle Times.

(Top inset) Light rail will eventually stop at a station near Husky Stadium at the University of Washington in Seattle. Photo courtesy of the University of Washington.

(Bottom inset) An ST Express bus runs on its regular route near Qwest Field in Seattle, home of the Seattle Seahawks.

The year 2005 was one of our busiest, and best ever.

By year's end, the citizens of this region saw that the Link light rail line from downtown Seattle to Sea-Tac Airport was about a third built, was within budget and remained on schedule to open in 2009.

We opened the Ash Way transit ramp and started work on the Eastgate Access project, Sammamish Park-and-Ride lot and the Totem Lake Freeway Station.

A second Sounder round-trip train between Everett and Seattle began running in June and ridership on that route jumped significantly. In September, a fourth round-trip train was added to the popular Tacoma-to-Seattle run and once again, ridership increased.

The year produced many other highlights, including the successful closure of the Downtown Seattle Transit Tunnel to retrofit it for joint bus and light rail operations.

Whether it was taking Seahawks football fans on special Sounder trains to the games on Sunday or pouring concrete at the Federal Way Transit Center, every day provided examples of Sound Transit at work building and operating the region's mass transit system. Our world-class team of professionals continued to make sure our projects are an asset to the region and our buses and trains offer the best service to our customers.

But, we can't do it alone. We work closely with our partner agencies on projects, schedules, service and advances that make it easier to get around by transit. A good example is the Smart Card fare collection program. Seven transportation agencies are working together so customers can use one fare card on multiple systems throughout the Central Puget Sound area. In 2005, equipment installation began for the regional Smart Card.

It was energizing for me, and I believe for citizens throughout this region, to see the progress we made in 2005.

Joni Earl

A Sounder North Corridor train hugs the scenic Puget Sound coastline on its way into Seattle.



Plans



Taking a light rail train to the airport is in the near future for Puget Sound residents. Plans moved forward in 2005 on the SeaTac/Airport Station, scheduled to open in 2009.

Making Sure We're Ready

In 1996, voters in Central Puget Sound charged Sound Transit with building the region's mass transit system. It was a defining moment for the future.

By 2005, that mass transit system was changing the commutes for thousands. There were long-haul buses, commuter trains, Tacoma Link light rail and a series of new HOV access lanes, transit centers and park-and-ride lots.

A lot has been done. But the job is not finished. That's particularly true with an additional 1.2 million people expected to be living in Central Puget Sound in the next 25 years and the prospect of all-day congestion on our roads.

So, what's the region doing about its future? In November the Federal Transit Administration gave its highest possible rating to University Link, the extension of light rail

from downtown Seattle to the University of Washington. The rating is the first step in securing a federal grant for the project.

Also in 2005, Sound Transit continued planning for Sound Transit 2, which is the expansion of the regional mass transit system.

Following a number of public meetings, the Sound Transit Board in 2005 adopted an updated Long Range Plan for how the system will expand. Later the agency, along with local leaders, transit professionals and the general public, helped draft a list of potential projects for Sound Transit 2.

For up-to-date information on Sound Transit 2, including potential projects, visit www.soundtransit.org/st2/.



*(Counter clockwise from the top)
Final design was completed in 2005 on the Issaquah Transit Center, east of Bellevue, which includes a new garage with more than 800 parking spaces.*

Work began in 2005 on the Eastgate transit ramp, located near Bellevue, in the busy I-90 corridor.

The Sammamish Park-and-Ride lot in East King County took shape in 2005. The project includes 265 new parking stalls with bus loading areas and layover space, bicycle storage facilities and a unique stormwater treatment facility.

Planning a regional transit system takes the effort of many people, as seen in this meeting in Kirkland.



In the next 25 years, another 1.2 million people are expected to be living in Central Puget Sound. That's more than the current combined populations of: Bellevue, Edmonds, Everett, Federal Way, Kirkland, Mercer Island, Tacoma, and Seattle.



The first Link light rail train under construction at the Kinkisharyo plant in Osaka, Japan.

Builds



“Today people throughout our region can see the stations going up, the tunnel being dug and the connection made between downtown Seattle, our neighborhoods and all the way to the airport.”

U.S. Senator Patty Murray

(Opposite) The elevated light rail track soars skyward in Tukwila on the way to Sea-Tac Airport.

The Downtown Seattle Transit Tunnel closed in September 2005 so construction crews could begin converting it to handle both buses and light rail trains.

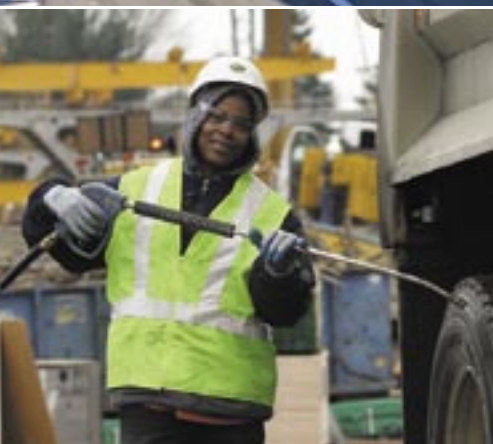




ST Express bus riders cut minutes off their commutes to Seattle with the opening of the Ash Way HOV Access ramp south of Everett.



Construction continues on the underground Beacon Hill Station located on the light rail line southeast of downtown Seattle.



Construction worker in the SODO area .



The Federal Way Transit Center in South King County is adding 1,200 new parking spaces and room for more than 700 buses that will use the new center every day.



Construction workers descend to the work site for the Beacon Hill Station.

Keeping Our Commitments

2005 was a year of moving dirt, pouring concrete and laying tracks, all visible examples of Sound Transit's construction progress.

Work was underway on more than 2,300 park-and-ride spots throughout the region.

The agency was busy building the Eastgate Access project, Sammamish Park-and-Ride lot and the Totem Lake Freeway Station. The Ash Way transit ramp opened, cutting 10-12 minutes off commute times for Seattle-bound bus commuters and improving the flow of traffic for everyone along that stretch of I-5.

Construction nearly wrapped up on the Federal Way Transit Center and the HOV Access ramps connecting to I-5.

The Everett Station layover track construction was completed, opening the way for a second Sounder commuter round-trip train to begin running and giving Everett-to-Seattle commuters another congestion-free alternative to get to work.

And by the end of 2005, the 14-mile long Central Link construction project was one-third built. The first light rail segment was installed, the shaft for the Beacon Hill light rail station reached its full depth, construction began on Link's Tukwila segment, the Downtown Seattle Transit Tunnel closed so it could be converted to light rail/bus operations and the environmental analysis was completed for the segment running into Sea-Tac Airport.

At construction sites throughout Central Puget Sound, workers in hardhats spent 2005 transforming blueprints into this region's mass transit system.

Operates



The arrival of Sounder commuter trains transformed downtown Auburn.

Simply put, we move people

In 2005, Sound Transit moved more people in its trains and buses than any previous year – nearly 11 million. In the short history of the agency, about 50 million riders have climbed on board our buses and trains.

In 2005 important changes allowed Sound Transit to continue building its ridership. In June, a second Sounder train between Everett and Seattle began running and ridership in the North Corridor showed significant gains. In September, a fourth round-trip train was added to the Tacoma-to-Seattle run.

Moving people is what we do.

Taking the Sounder train is fun for all ages, including four-year-old Shelby Sawyer, her mother, Brandy, and conductor Will Rollins.





Sound Transit Express buses carried nearly 9 million riders in 2005. The Bellevue Transit Center is a popular place to catch the bus.



Nearly 11 million passengers found rides on Sound Transit's buses and trains in 2005.

"In the fall of 2005, survey results show that 61% of the region's voters had a favorable opinion of Sound Transit. Members of this Panel feel the agency deserves this favorable view. . . "

Citizen Oversight Panel 2005 Year-End Report

A worker takes care of equipment on the Tacoma Link light rail line in downtown Tacoma.



Mobility



Transit Benefits Everyone

Central Puget Sound is increasingly interconnected. Long gone are the days when people lived, worked and shopped in the same neighborhood.

Today, people who live in Everett may work in Bellevue and attend Seahawks games in Seattle. People in Seattle work at employment centers in East King County. People who live in Tacoma work in Tukwila and Renton and rely on Sea-Tac Airport to connect them to the world.

About a third of the commuters into and out of the downtown Seattle business district ride transit. Imagine if all those commuters got back in their cars on our crowded highways. A good transit system supports a strong local economy and helps maintain a region's quality of life.

Sound Transit is making it easier to get around Puget Sound by offering new choices. Now you can board a Sounder train, a Tacoma Link light rail train or an ST Express regional bus to get you where you need to go.



The Kent Station is a catalyst for development in downtown Kent.

(Opposite) A Tacoma Link light rail train is on its way to the Theater District. Nearly 900,000 passengers rode Tacoma Link trains in 2005.



The Lynnwood Transit Center north of Seattle makes it easy to connect to the region.



Transit riders in south Pierce County have discovered that the DuPont Park-and-Ride lot is a great place to catch an ST Express bus.



A Sounder commuter train leaves the Everett Station on its early morning run into Seattle. A second round-trip train started service from Everett in late spring 2005.



Welcome aboard. Sound Transit service took passengers up and down the Puget Sound region in 2005.

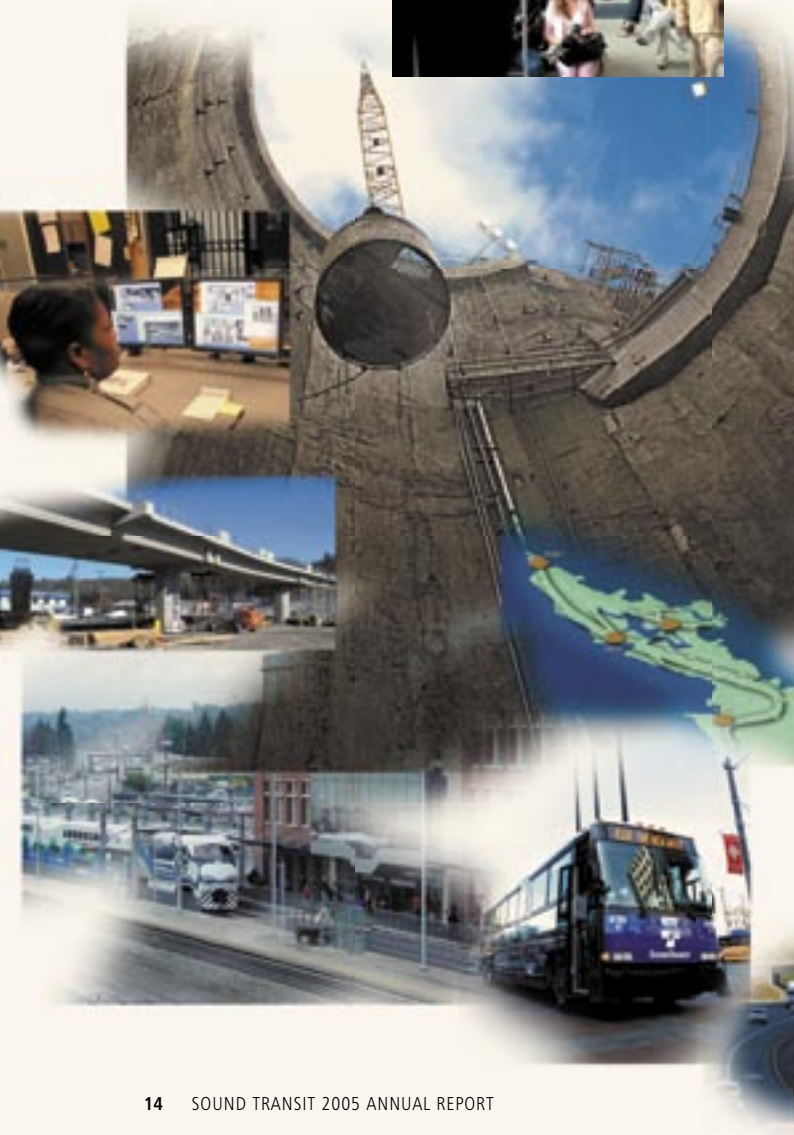
Now you can board a Tacoma Link light rail train, a Sounder train or an ST Express regional bus to get you where you need to go.

Milestones

Taking Care of Business: The 2005 Milestones

Sound Transit's Milestones encourage the public to track the agency's progress throughout the year. As the months progress, checkmarks on the milestones chart show very clearly how we're doing.

In total, the agency reached 23 of 31 milestones in 2005. The remaining milestones are scheduled for completion in 2006.



Project Delivery

Building the mass transit system

- ✓ Eastgate transit ramp construction begins
- ✓ First Central Link light rail segment installed
- ✓ Everett Station layover track construction begins
- ✓ Tukwila Freeway Route construction begins on Central Link light rail
- ✓ Bellevue Transit Center Rider Services Building construction begins
- ✓ Cedar River pipeline replacement complete for Central Link
- ✓ Sammamish Park-and-Ride lot construction begins
- ✓ Totem Lake Freeway Station construction begins
- North Link Final SEIS published
- ✓ Airport Link environmental analysis complete
- Central Link's Beacon Hill tunnel boring machine is launched
- ✓ Downtown Transit Tunnel closes for conversion to light rail/bus operations
- ✓ Beacon Hill Station shaft for Central Link reaches full depth of 165 feet
- ✓ Ash Way transit ramps open
- Souder completes Tacoma-to-Lakewood right-of-way acquisition
- Permits for Souder North third train certified
- First Central Link construction segment completed
- First Central Link vehicle tested in Japan
- ✓ Issaquah Transit Center final design complete
- Federal Way Transit Center completed
- Federal Way HOV Access Ramps open

Service Delivery

Connecting the region with trains and buses

- ✓ Coach style long-haul transit buses delivered
- ✓ Kent Station transit hub in full operation
- ✓ Special needs transportation Web site unveiled (FindARide.org)
- ✓ Second Souder round-trip train begins between Everett and Seattle
- ✓ Souder passenger information/security system in operation
- ✓ 45 million riders carried system-wide

Future Connections

Expanding the regional mass transit system

- ✓ Long-Range Plan Draft EIS public meetings
- ✓ Long-Range Plan Final SEIS published
- ✓ Board adopts Long Range Plan
- ✓ Regional Smart Card equipment installation begins



Sound Transit Projects Completed Since 1996

Financial Transparency and Accountability in All That We Do

The 1996 voter-approved *Sound Move* plan included a number of checks and balances to keep it transparent and accountable. This included implementing a financial framework for managing the *Sound Move* program.

As part of its monitoring function, Sound Transit established: a 16-member Citizen Oversight Panel (COP); a Performance Audit Committee comprised of Boardmembers, COP members and individuals from the community; and an Audit and Reporting subcommittee. These groups meet on a regular basis, providing strong oversight to the performance, financial and federal audit function of the agency.

In 2005, for the ninth year in a row, the agency received clean, unqualified financial and federal audit reports from its independent auditors. In addition, a performance audit was completed of Sound Transit's capital projects management systems. Performance audits benchmark performance against best practice and are a key component of continuous improvement.



The Sound Transit Board ponders significant regional transportation decisions at its regular meetings in the Ruth Fisher Boardroom at Union Station.

The federal government is an important funding partner with Sound Transit and also provides substantial oversight. The Federal Transit Administration provides regular financial and project management oversight reviews of the agency. The Inspector General of the United States Department of Transportation examines all audits and reviews completed by other parties.

Subarea Summary

The principle of subarea equity assures that Sound Transit taxes raised within an area are used for capital projects and operations that benefit that area.

REVENUES BY SUBAREA (UNAUDITED)

SUBAREA	2001	2002	2003	2004	2005
Snohomish County	\$ 52,029	\$ 42,735	\$ 38,437	\$ 42,320	\$ 67,668
North King County	83,330	116,998	84,917	131,250	141,442
South King County	79,180	75,788	63,795	81,455	95,531
East King County	74,588	84,207	76,545	80,798	98,715
Pierce County	68,726	62,424	62,731	64,377	77,472
Regional Fund	41,613	25,822	13,400	9,408	15,949
TOTAL	\$ 399,466	\$ 407,974	\$ 339,825	\$ 409,608	\$ 496,777

\$ in thousands

OPERATING EXPENSES BY SUBAREA (UNAUDITED)

SUBAREA	2001	2002	2003	2004	2005
Snohomish County	\$ 7,579	\$ 7,290	\$ 7,522	\$ 13,074	\$ 18,055
North King County	3,508	2,349	2,580	1,206	3,633
South King County	13,560	13,967	16,116	17,939	25,461
East King County	18,092	22,589	25,944	29,650	35,533
Pierce County	19,633	24,218	27,441	31,708	36,931
Regional Fund	14,993	17,076	15,857	18,614	19,840
TOTAL	\$ 77,365	\$ 87,489	\$ 95,460	\$ 112,191	\$ 139,453

\$ in thousands

CAPITAL EXPENDITURES BY SUBAREA (UNAUDITED)

SUBAREA	2001	2002	2003	2004	2005
Snohomish County	\$ 47,585	\$ 22,925	\$ 109,418	\$ 95,421	\$ 11,110
North King County	61,384	72,350	81,688	184,304	290,520
South King County	52,137	63,926	68,172	86,817	153,135
East King County	19,476	24,587	38,692	71,606	43,789
Pierce County	52,485	69,871	57,980	39,540	49,334
Regional Fund	(908)	2,055	3,449	4,382	1,609
TOTAL	\$ 232,159	\$ 255,714	\$ 359,399	\$ 482,070	\$ 549,497

\$ in thousands

Financial Section

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STATEMENT OF MANAGEMENT'S RESPONSIBILITY

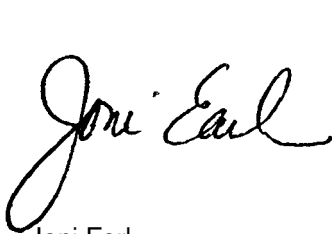
The financial statements of the Central Puget Sound Regional Transit Authority (Sound Transit) have been prepared from the agency's accounting system in accordance with generally accepted accounting principles. The integrity and objectivity of information in Sound Transit's financial statements, including estimates and judgments, are the responsibility of management.

Sound Transit maintains a system of internal accounting controls designed to provide reasonable assurance as to the integrity and reliability of financial reporting, the safeguarding of assets and the prevention and detection of material errors or fraudulent financial reporting. Monitoring of such systems includes management's responsibility to objectively assess the effectiveness of internal accounting controls and recommend improvements therein.

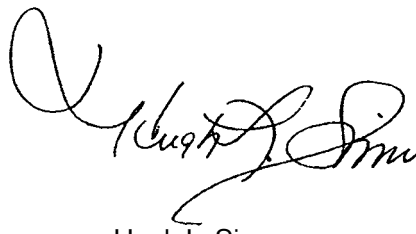
Limitations exist in any system of internal accounting controls in which the cost of the system being implemented should not exceed the benefits derived. Sound Transit believes that the organization's system does provide reasonable assurance that transactions are executed in accordance with management's general or specific authorizations and is adequate to accomplish the stated objectives.

The independent auditors, whose report is included herein, were engaged to express an opinion on our 2005 financial statements. Their opinion is based on procedures performed in accordance with generally accepted auditing standards, including examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

In an attempt to assure objectivity, the financial information contained in this report is subject to review by the Board of Directors.



Joni Earl
Chief Executive Officer



Hugh L. Simpson
Chief Financial Officer



Kelly A. Priestley
Controller

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MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

Management's Discussion and Analysis ("MD&A") presents a narrative overview and analysis of the financial activities of the Agency for the years ended December 31, 2005 and 2004. The MD&A is designed to assist readers of financial statements in focusing on significant financial activities and issues and to identify any significant changes. As this information is presented in summary form, it should be read in conjunction with the financial statements and footnotes as a whole.

Central Puget Sound Regional Transit Authority, a public corporation acting under the service name of Sound Transit, is a regional transit authority implementing and providing a high-capacity transportation system throughout parts of King, Pierce and Snohomish counties through commuter rail ("Sounder"), light rail ("Link") and a regional express bus system ("ST Express"). The implementation of the initial phase of the voter-approved regional transportation system ("Sound Move") is scheduled for a 13-year period, ending in 2009. The Agency is nine years into this initial phase and its activities to date have been concentrated on implementing service in all three transit modes and on the design, environmental review and construction of its capital projects.

Sound Transit's financial statements have reflected a growth in operating revenues and expenses each year, as well as growth in capital projects in progress and property, vehicles and equipment. As the Agency has not reached its full service levels and is in the construction phase on its light rail project, major sources of revenue exceed expenses resulting in a rising net assets position.

FINANCIAL HIGHLIGHTS

- ◆ Total operating revenues were \$19.9 million for 2005, an increase of 19.9% from the prior year. Passenger fares increased by \$3.3 million from the prior year as a result of additional round-trip Sounder service from Everett-to-Seattle and Tacoma-to-Seattle, as well as increased ridership on ST Express and an increase in ST Express fares. Other revenues were consistent with the prior year.
- ◆ Total operating expenses, excluding depreciation and gains or losses on disposal of assets, were \$98.3 million, an increase of \$11.4 million or 13.1% from the prior year.
 - Operations and maintenance expenses increased by \$10.2 million. This increase reflects the additional round trip service on Sounder, a 3% increase in service levels on Regional Express, cost increases related to fuel and an increase in the cost of purchased transportation agreements.
 - General and administrative expenses, after allocations to capital projects and operations and maintenance, increased by \$1.2 million. This reflects an increase in staffing levels with the increased planning efforts for the next phase to be submitted for voter approval (ST2), as well as fewer vacant positions during the year. In addition higher advertising costs were incurred as the Agency promoted and encouraged use of its services.
- ◆ Non-operating revenues (expenses) were up \$36.0 million from the prior year, reflecting higher tax revenues of \$22.4 million and higher investment income of \$15.5 million as the economy rebounded, interest rates rose and available cash balances increased with the 2005A bond issuance. Offsetting increased revenues were greater write-offs in 2005 related to discontinued projects of \$6.3 million which reflected an alignment change on North Link, while in 2004 there was a loss on change in interlocal agreement of \$4.6 million.
- ◆ Capital contributions increased by \$89.3 million, with federal and other contributions to Sound Transit increasing by \$46.0 million and the value of transfers to other governments decreasing by \$43.2 million.
- ◆ Total net assets at December 31, 2005, were \$2.3 billion, an increase of \$286 million or 13.9% from 2004, which was up from an increase of \$180 million or 9.6% from 2003. The higher increase in net assets in 2005 from 2004 is

a result of the higher net capital contributions of \$89 million, higher non-operating revenues (expenses) of \$36 million and a higher loss from operations of \$20 million.

- ◆ Total capital assets, net of accumulated depreciation, were \$2.3 billion at December 31, 2005, an increase of \$504 million or 28.4% from 2004. The increase in total capital assets reflects an increase in capital projects in progress as construction moves forward on the Link light rail projects, additional land acquisitions for light rail and further progress on the Sounder track and facilities projects. Approximately \$159 million in projects were completed during the year and transferred to depreciable assets or expensed as capital contributions to other governments, and \$6 million in assets were written off due to a change in the alignment for North Link.

OVERVIEW OF THE FINANCIAL STATEMENTS

Sound Transit's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to government units. The 2005 financial statements are presented using the economic resource measurement focus and accrual basis of accounting. As Sound Transit comprises a single proprietary fund, no fund level financial statements are shown.

In accordance with GAAP, all revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred. All assets and liabilities associated with the operation of Sound Transit are included in the Balance Sheets, and depreciation of capital assets is recognized in the Statements of Revenues, Expenses and Changes in Net Assets.

The financial statements provide both long-term and short-term information about Sound Transit's overall financial status as well as Sound Transit's net assets, segregated by invested in capital assets (net of related debt), restricted and unrestricted. Net assets are the difference between Sound Transit's assets and liabilities and over time may serve as a useful indicator of Sound Transit's financial position.

The financial statements also include notes that provide additional information that is essential to a full understanding of the information provided.

FINANCIAL ANALYSIS

Net Assets

Sound Transit's total net assets at December 31, 2005, were \$2.3 billion, an increase of \$286 million or 13.9% from 2004 (see Table A-1). Total assets increased \$805 million or 31.4% and total liabilities increased by \$520 million or 103.4%. The increase in total assets reflects capital spending activity and a substantial increase from 2004 in capital assets, together with greater cash and investment balances on hand as bond proceeds were not fully spent by the end of the year. Total liabilities increased due to issuing additional bonds, but also due to greater accounts payable and other current liabilities outstanding at year end related to increased construction spending from the same time last year. This compares to total net assets of \$2.1 billion at December 31, 2004, which was an increase of \$180 million from 2003, and also related to increased capital spending. The increased net asset position in 2004 was funded entirely through excess revenues over expenditures.

Table A-1
Sound Transit Net Assets

(in millions)	As of December 31,			% Change	
	2005	2004	2003	2005-2004	2004-2003
Current assets, excluding restricted assets	\$ 679.5	\$ 550.7	\$ 691.8	23.4	(20.4)
Restricted assets	335.3	170.1	217.9	97.1	(21.9)
Capital assets	2,277.5	1,773.6	1,367.0	28.4	29.7
Other non-current assets	74.9	67.4	69.2	11.1	(2.6)
Total Assets	3,367.2	2,561.8	2,345.9	31.4	9.2
Current liabilities, excluding interest payable from restricted assets	157.1	82.6	54.3	90.2	52.1
Interest payable from restricted assets	10.6	7.2	7.2	47.2	0
Long-term debt	791.2	353.1	347.4	124.1	1.6
Other long-term liabilities	63.6	59.9	58.2	6.2	2.9
Total Liabilities	1,022.5	502.8	467.1	103.4	7.6
Net Assets					
Invested in capital assets, net of related debt	1,674.9	1,422.4	1,022.5	17.8	39.1
Restricted net assets	131.8	162.9	210.7	(19.1)	(22.7)
Unrestricted net assets	538.0	473.7	645.6	13.6	(26.6)
Total Net Assets	\$ 2,344.7	\$ 2,059.0	\$ 1,878.8	13.9	9.6

Current assets, excluding restricted assets, increased in 2005 by 23.4% from 2004. This increase was substantially due to an increase in cash, cash equivalents and investments of \$117.4 million and increased taxes and other receivables of \$9.5 million. Capital expenditures were first funded through the 2005A Sales Tax Bond proceeds, with the excess revenues over expenditures being invested for future spending requirements. In 2004, current assets decreased by 20.4% from 2003, substantially due to a reduction in cash, cash equivalents and investments of \$167.1 million reflecting spending for land acquisitions and construction on the Central Link project, as well as payment for the second of four easements from Burlington Northern and Santa Fe ("BNSF") and ST Express projects (see also Table A-4). The decrease in 2004 was partially offset by increased taxes and other receivables of \$26.1 million.

Restricted assets increased in 2005 by 97.1% from 2004, as \$201.0 million in bond proceeds remained unspent at year end. These bond proceeds are anticipated to be fully spent in 2006. Offsetting the increase from the bond proceeds were payments to BNSF for construction for funds restricted under contractual agreement. In 2004, restricted assets decreased by 21.9% from 2003 related to construction costs paid to BNSF in that year.

Capital assets increased in 2005 by \$503.9 million or 28.4% from 2004, reflecting Sound Transit's increased capital program activity as construction progressed on projects. This compares to an increase of \$406.6 million in 2004 from 2003, which was also an effect of progress in the capital program. In 2005, Sound Transit capitalized \$586.6 million (\$503.2 million in 2004) in design, construction, acquisition, interest and overhead costs to capital projects in progress. The Central Link

light rail project is in full construction, representing \$431.2 million of amounts capitalized or 73.5% of total capital spending, while the Sounder and ST Express programs approach completion of several major program elements. In 2004, \$252.1 million for Central Link was capitalized to capital projects in progress or 50% of capital spending.

Transfers out of capital projects in progress were \$165.7 million (\$463.0 million in 2004) as projects were completed and transferred to either property, vehicles and equipment or expensed as follows:

(in millions)	2005	2004
Transferred to property, vehicles and equipment	\$ 103.5	\$ 368.7
Expensed to contributions to other governments	55.9	92.6
Transferred to recoverable costs or inventory	(1.0)	1.0
Write-off of overhead, discontinued project costs and loss on disposal of assets	7.3	0.7
	<u>\$ 165.7</u>	<u>\$ 463.0</u>

Included in discontinued projects in 2005 is \$6.3 million in costs related to a change in alignment for North Link. Management reviewed costs incurred to date, and those costs not having continual value to the new proposed alignment are included in this write-off.

Direct additions to property, vehicles or equipment in 2005 were \$15.7 million, which included \$3.6 million in land contributions from Washington State under the Land Bank agreement, \$1.7 million in asset retirement obligations related to Tacoma Link and Sounder stations in South King and Pierce County, delivery to Sound Transit of \$6.5 million in buses for ST Express, \$1.6 million in regularly scheduled computer and related software replacements, as well as replacement of the Agency's phone system. Direct additions in 2004 were \$28.3 million, which included \$17.6 million in land contributions from Washington State under the Land Bank agreement, delivery to Sound Transit of \$8.3 million in buses for ST Express, and \$1.6 million in computer equipment and software to upgrade the Agency's project management system and to replace copiers.

The Land Bank agreement provides credits in recognition of projects constructed by Sound Transit that benefit the State and may be used toward future purchases or leases by Sound Transit of state-owned land or airspace. The value of Land Bank credits at December 31, 2005, was \$68.1 million and is not recorded in the financial statements. The following table provides information on additions to and uses of credits accruing to the benefit of Sound Transit in 2005 and 2004.

(in millions)	2005	2004
Balance in Land Bank, beginning of year	\$ 72.9	\$ 95.8
Credits:		
ST Express (SR900 HOV Improvement)	-	3.8
Draws:		
Link (Central and North alignment)	(1.1)	(25.9)
Sounder (Kent Station, Bay Street)	-	(0.5)
ST Express (Mercer Island Park & Ride, Issaquah and Lynnwood Transit Centers)	(3.7)	(0.3)
Balance in Land Bank, end of year	<u>\$ 68.1</u>	<u>\$ 72.9</u>

Offsetting the increase in capital spending, accumulated depreciation increased in 2005 by \$33.7 million from 2004 and by \$22.5 million in 2004 from 2003. The significant increase in depreciation expense reflects the capitalization of rail access costs at the end of 2004 and their continued capitalization of additional costs in 2005. Additionally, \$2.5 million in assets were disposed of or retired (\$8.1 million in 2004) with a net book value of \$1.8 million (\$7.6 million in 2004). These disposals and retirements included \$1.7 million in land exchanged with the University of Washington and \$0.8 million for the phone system and copiers under capital lease. In 2004 disposals included \$6.5 million in land related to the Lynnwood and Bellevue High Occupancy Vehicle ("HOV") projects, as well as the write-off of the temporary Sounder Tacoma platform.

Current liabilities in 2005, excluding interest payable from restricted assets, increased by 90.2%, reflecting increased spending activity on the Central Link project. By the end of 2004, all significant construction contracts had been awarded on Central Link projects,

although most construction activity was only in the start-up phase. Current liabilities in 2004 increased by 52.1% from 2003, reflecting an increased number of construction contracts as construction commenced on the Central Link project.

Long-term debt increased by 124.1% reflecting the issuance of the 2005A Sales Tax Bonds in March, 2005. These bonds were a strategic issuance to finance the Agency's construction program and were sold with an effective interest rate of 4.6%. In addition, \$12 million in promissory notes payable to BNSF were issued on the closing of the acquisition of the South Line of the Sounder Nisqually-to-Tacoma corridor. Principal payments on the outstanding bonds do not commence until 2006. Long-term debt was substantially unchanged between 2004 and 2003, with the exception of issuing a promissory note payable to BNSF on the closing of the acquisition of the North Line of the Sounder Nisqually-to-Tacoma corridor.

Investment in capital assets, net of related debt, represents 71.4% of Sound Transit's total net assets in 2005, 69.1% in 2004 and 54.4% in 2003. The increase in capital asset investment reflects the continued construction of Sound Transit's infrastructure assets for its commuter rail, light rail and express bus system; however, this increase is smaller than in prior years with the issuance of the 2005A Sales Tax Bonds which funded a significant portion of the Agency's capital program during the year. Sound Transit uses these assets to provide service, and consequently these assets are not available to liquidate liabilities or for other expenditures.

Restricted net assets represents 5.6% and unrestricted net assets 23.0% of total net assets, respectively, in 2005; 7.9% and 23.0% in 2004; and 11.2% and 34.4% in 2003. The unrestricted and substantially all of the restricted net assets are available for future expenditures associated with construction projects planned in *Sound Move*. Unrestricted net assets for 2005 and 2004 are comparable as a percentage of total net assets as a significant portion of the investment in capital assets was funded through the issuance of bonds. In prior years the decline in the relative proportion of restricted

and unrestricted net assets as a percent of total net assets was anticipated as infrastructure assets were constructed and funded out of unrestricted net assets.

CHANGES IN NET ASSETS

The increase in net assets in 2005 was \$285.7 million, as compared to an increase in net assets in 2004 of \$180.2 million (see Table A-2). In 2005, Sound Transit's non-operating revenues and expenses increased by 13.0% and capital contributions increased by \$89.2 million from 2004, partially offset by an increase in the loss from operations of 20.9%. The increase in net assets in 2004 was lower than 2005 as non-operating revenues and expenses and capital contributions decreased by 3.8% and 108.9% respectively, with a lower increase in the loss from operations of 18.7%.

The increase in the loss from operations reflects an increase in service and operating revenues of 19.9% in 2005 and 10.7% in 2004; however, this was more than offset by total operating expenses which increased 20.7% in 2005 and 17.4% in 2004.

Table A-2
Changes in Sound Transit Net Assets

(in millions)	For the year ended December 31,			% Change	
	2005	2004	2003	2005-2004	2004-2003
Operating Revenues					
Passenger fares	\$ 16.5	\$ 13.2	\$ 11.6	25.0	13.8
Other	3.4	3.4	3.4	0.0	0.0
Total Operating Revenues	19.9	16.6	15.0	19.9	10.7
Operating Expenses					
Total operating expenses, before depreciation and loss on disposal of assets	98.3	86.9	76.1	13.1	14.2
Depreciation and loss on disposal of assets	34.5	23.1	17.6	49.4	31.3
Total operating expenses	132.8	110.0	93.7	20.7	17.4
Loss from operations	(112.9)	(93.4)	(78.7)	20.9	18.7
Non-operating revenues, net of expenses	312.2	276.2	287.0	13.0	(3.8)
Income before capital contributions	199.3	182.8	208.3	9.0	(12.2)
Capital contributions	86.6	(2.6)	29.1	3,430.8	(108.9)
Change in Net Assets, before cumulative effect adjustment	285.9	180.2	237.4	58.7	(24.1)
Cumulative effect adjustment	(0.2)	-	-	-	-
Change in Net Assets	285.7	180.2	237.4	58.5	(24.1)
Total net assets, beginning	2,059.0	1,878.8	1,641.4	9.6	14.5
Total Net Assets, ending	\$ 2,344.7	\$ 2,059.0	\$ 1,878.8	13.9	9.6

OPERATING REVENUES

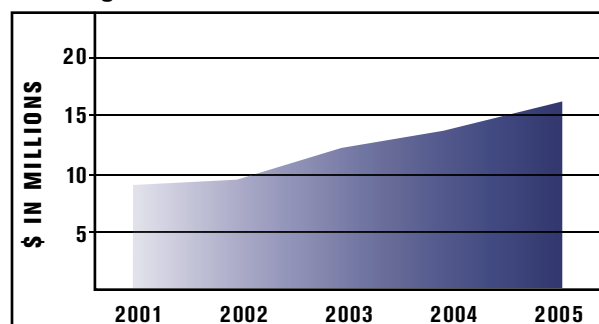
Operating revenues are composed of passenger fares and other revenues.

PASSENGER FARE REVENUE

Passenger fare revenue consists of fares earned from the sale of Puget passes, Sounder tickets and bus farebox receipts and tickets used by riders during the year on Sounder and ST Express.

Sounder rail passenger revenue increased \$790K or 34.9% over 2004 (\$420 thousand or 22.8% in 2004 over 2003), with ridership increasing by 313 thousand boardings in 2005 over 2004 and 204 thousand boardings in 2004 over 2003. ST Express bus passenger revenue increased by \$2.5

Passenger Revenue



million or 22.7% over 2004 (\$1.2 million or 10.6% in 2004 over 2003), with ridership increasing by 422 thousand boardings in 2005 over 2004, and 994 thousand boardings in 2004 over 2003. Between 2004 and 2005, the region has seen in excess of a

15% increase in Flexpass ridership, with even greater change on a per passholder basis, illustrating strong success in our employer programs in increasing transit ridership. The average fare per boarding was \$1.63 in 2005, an increase of \$0.22 from 2004. ST Express fare prices were increased by \$0.25, effective June, 2005. The average fare per boarding in 2004 was comparable to 2003.

The ridership increase on Sounder in 2005 reflects additional round-trip service between Everett-to-Seattle in June, 2005, and between Tacoma-to-Seattle in September, 2005, and in 2004 with the addition of the first service between Everett-to-Seattle which commenced in December, 2003. Sounder's service from Everett-to-Seattle was provided at no cost until February 1, 2004.

Ridership on ST Express increased due to increased service hours of 3.1% over 2004 with same route ridership stabilizing on most routes. In addition the rising cost of fuel has made public transportation a more attractive alternative, the effects of which were tempered by fare increases. The increases in 2005 were lower than 2004 which included the full year impact of significant service implementation changes from September 2003, whereby ST Express discontinued a low ridership route serving Everett to Northgate, replacing it with full time service between Ash Way Park-and-Ride and Seattle. In addition, there were also major service improvements between East Redmond and Seattle and along the SR-167 corridor.

Service on Tacoma Link, a free fare service, also showed strong increases in ridership. Ridership numbers are presented in the following table:

Ridership

(in thousands)	% Increase				
	2005	2004	2003	2005-2004	2004-2003
Sounder	1,268.0	955.3	751.2	32.7	27.2
Link	884.9	794.6	266.8	11.4	197.8
ST Express	8,815.8	8,394.3	7,399.9	5.0	13.4
Total	10,968.7	10,144.2	8,417.9	8.1	20.5

Other Revenues

Other revenues consist of vehicle advertising, rental of equipment and facilities and other miscellaneous revenue. Other revenues of \$3.4 million were comparable to 2004 and 2003.

OPERATING EXPENSES

Operating expenses are comprised of operations and maintenance costs, general and administrative expenses and depreciation.

Operations and Maintenance

Operations and maintenance, which increased by \$10.2 million or 14.4% from 2004 (\$10.5 million or 17.4% in 2004 over 2003), includes costs associated with the operation of the Sounder commuter rail, Link light rail in Tacoma and ST Express bus services. Major expense categories are services, materials, supplies, utilities, insurance, taxes, purchased transportation, allocated overhead from staff divisions and operating leases and rentals. Purchased transportation represents amounts paid to BNSF, Community Transit, King County Department of Transportation and Pierce Transit who operate Sound Transit's commuter rail and express bus service, accounting for 68% of this category (70% in 2004 and 72% in 2003). Services are the next largest expenditure in this category and include Sounder vehicle maintenance contracted to Amtrak.

Operations and maintenance costs by line of business are as follows:

Operations and Maintenance

(in millions)	% Increase				
	2005	2004	2003	2005-2004	2004-2003
Sounder	21.1	15.9	13.3	32.7	27.2
Link	2.8	2.6	1.6	7.7	62.5
ST Express	57.2	52.4	45.5	9.2	15.2
Total	81.1	70.9	60.4	14.4	17.4

Sounder's costs increased in 2005 by \$5.2 million or 32.7%, while in 2004 costs increased by \$2.6 million or 19.5%. These cost increases reflect additional train service with a second round-trip service added in the North in June 2005 and a fourth round-trip service in the South in September 2005. The first service provided in the North began late December, 2003. Also impacting the increase from 2004 to 2005, the hourly rate for service paid to purchased transportation providers doubled for the second service added in the North. This increased service contributed to ridership increases of 32.7% and 27.2% in 2005 and 2004 respectively.

Link costs for operating the free fare Tacoma light rail service increased in 2005 by \$0.2 million or 7.7% and by \$1.0 million or 62.5% in 2004, which was the first full year of service. Ridership increased by 11.4% and 197.8% for those same periods.

ST Express costs increased in 2005 by \$4.8 million or 9.2%, while in 2004 costs increased by \$6.9 million or 15.2%. Major service improvements were initiated in 2004 on ST Express between East Redmond and Seattle and along the SR-167 corridor with a continued increase in 2005 of overall service hours provided of 3.1%. In addition, higher fuel costs and higher purchased transportation costs also contributed to the increased cost in 2005 as the newly negotiated purchased transportation agreements came into effect at the beginning of 2005.

General and Administrative

General and administrative expenses are comprised of Agency staff and administrative costs not allocated to operations and maintenance or to capital projects. Major expense categories include wages, benefits, services, materials, supplies, utilities, insurance, taxes, miscellaneous, lease and rental expenses. In 2005 general and administrative expenses increased by \$1.2 million or 7.6% and in 2004 by \$0.4 million or 2.3%.

Before allocation to capital projects and operations, total Agency staff and administrative costs increased in 2005 by \$898 thousand or 1.9% from 2004 and in 2004 by \$5.0 million or 11.8% from 2003. The

increase in costs in 2005 were in the areas of salary and benefits and advertising as vacant positions from 2004 were filled and advertising efforts were increased to promote public transportation. Salary and benefit costs were also a factor in 2004 where those costs increased by \$3.6 million as positions were added to meet the increased capital program and operations activity.

General and administrative costs are allocated to capital projects and transit operations based on activity drivers and relative level of spending. Costs allocated to capital projects in 2005 were \$24.3 million and to transit operations and maintenance were \$5.9 million. These allocations were comparable to 2004, which were \$24.6 million and \$5.4 million, respectively. In 2004, total allocations were up \$2.0 million from 2003, reflecting the higher salary costs and activity levels within the Agency. Also included in general and administrative costs are any write-off of overhead from projects. As projects approach completion, allocated overhead costs are reviewed, and any excess costs are written off. In 2005, \$0.6 million in excess costs were written off, \$0.3 million in 2004 and \$0.7 million in 2003.

Depreciation and Loss on Disposal of Assets

Depreciation expense increased in 2005 by \$11.4 million or 49.4% from 2004 (\$5.5 million or 31.3% in 2004 from 2003), reflecting the increase in depreciable assets put into use in 2005 and 2004. The most significant impact has been the capitalization of the rail access costs for the Sounder program, which were first capitalized at the end of 2004. As projects are completed and put into use, the costs of these assets are amortized over their expected useful lives.

Non-Operating Revenues (Expenses)

Non-operating revenues increased in 2005 by \$36.0 million or 13.0% from 2004. The most significant impact has been stronger tax revenues which improved by \$22.4 million over the prior year.

This increase is substantially in the area of sales tax and reflects the recovery of the regional economy from prior years. In addition, investment earnings increased by \$15.5 million as cash balances increased with the issuance of the 2005A Sales Tax Bonds, together with a substantial rise in interest rates that is also related to the strengthening of the economy.

Other non-operating expenses include supplemental mitigation in the Rainier Valley, Phase II planning, costs not eligible to be capitalized, fare integration subsidies to other transit agencies, discontinued project costs and losses not related to operations. The total of these costs was \$22.2 million in 2005, \$20.4 million in 2004, and \$4.3 million in 2003, the increase of which from 2003 reflects 2005 and 2004 planning efforts for ST2, as well as loss on changes in projects and interlocal agreements of \$6.3 million in 2005 and \$4.8 million in 2004. Mitigation payments through the Community Development Fund decreased from the prior year with the change in the funding requirements under that agreement; however, that reduction was offset by an increase to the Agency's loss provision for general liability claims related to the Agency's capital program.

Capital Contributions

Net capital contributions increased in 2005 by \$89.2 million from 2004 and decreased in 2004 by \$31.7 million from 2003. Capital contributions include federal grant funding, state and local contributions to Sound Transit, as well as contributions from Sound Transit to state and local governments pursuant to capital improvement or funding agreements. Federal contributions for 2005 were \$135.4 million, an increase of \$66.6 million from 2004, and reflected the grant reimbursable spending on the Central Link project, as well as satisfactory completion of a pending requirement related to Sounder station grants.

Other capital contributions of \$7.1 million primarily relate to land contributed to Sound Transit from the state pursuant to the Landbank agreement. These

contributions may vary significantly by year depending upon the Agency's right of way requirements and suitable available state property. In 2004, federal contributions were \$68.8 million, an increase of \$42.0 from 2003 related to reimbursable spending on the Central Link project. Other capital contributions were \$27.6 million for 2004, an increase of \$20.9 million, as title was transferred from the State for several land parcels.

Also contributing to the higher net capital contributions in 2005 were lower contributions to other governments by Sound Transit. In 2005, Sound Transit contributions were \$55.9 million, a decrease of \$43.2 million, whereas in 2004 contributions to other governments were \$99.1 million. Major projects completed or funding provided in 2005 included the Ash Way Transit Access/ 164th St SW, the SR900 Park-and-Ride Arterial Improvements, and the Issaquah Highlands Park and Ride. In 2004 two significant projects, the Bellevue and Lynnwood HOV, were completed. No significant projects under construction for other governments were completed in 2003.

CAPITAL ASSETS

At December 31, 2005, Sound Transit had invested \$2.3 billion in capital assets, net of accumulated depreciation, of which \$656 million of depreciable assets were in service (\$598 million in 2004 and \$386 million in 2003). This represents a net increase of \$58 million, or 9.7%, over 2004 (\$212 million or 54.9% in 2004 over 2003).

Land increased by \$22.0 million in 2005 from 2004, which included purchases of \$13.7 million for Sounder commuter rail stations, \$6.5 million along the Central Link segment, and \$3.6 million for ST Express park-and-rides and transit centers. The intended land use for the significant additions for Sounder and ST Express includes Tukwila and Lakewood commuter stations and the Mercer Island Park & Ride and Issaquah Transit Center. The Mercer Island and Issaquah parcels were acquired through

the Landbank Agreement. In 2004, land increased by \$75.2 million from 2003, which included \$50.9 million in acquisitions for the Central Link segment, \$16.9 million for North Link and \$10.3 million for Sounder commuter rail in the Nisqually-to-Tacoma corridor.

Permanent easements increased by \$2.9 million in 2005 and included easements acquired from the University of Washington for the Central Link light rail line and acquired from the City of Everett related to the Everett station. In 2004, the permanent easements relate to the second easement for the Sounder Everett-to-Seattle corridor. In 2003 Sound Transit entered into an agreement with BNSF to acquire four easements, each providing one round trip of commuter rail service. The first easement was acquired in 2003.

Table A-3
Sound Transit Capital Assets (net of depreciation)

(in millions)	As of December 31,			% Change	
	2005	2004	2003	2005-2004	2004-2003
Land	\$ 269.1	\$ 247.1	\$ 171.9	8.9	43.7
Permanent easements	161.0	158.1	79.0	1.8	100.1
Capital projects in progress					
Sound Transit	1,071.1	690.3	625.0	55.2	10.4
Other governments	119.9	79.7	104.9	50.4	(24.0)
Total Non-Depreciable Assets	1,621.1	1,175.2	980.8	37.9	19.8
Buildings, transit facilities & rail	206.9	209.3	211.7	(1.1)	(1.1)
Rail access rights	262.6	198.5	-	32.3	n/a
Revenue vehicles	182.8	186.5	171.0	(2.0)	9.1
Equipment, vehicles & other	4.1	4.1	3.5	0.0	17.1
Total Depreciable Assets	656.4	598.4	386.2	9.7	54.9
Total Net Capital Assets	\$ 2,277.5	\$ 1,773.6	\$ 1,367.0	28.4	29.7

Activity on capital projects in progress is summarized in the following table:

Table A-4
Major capital project activities from 2005 and 2004:

	Souder	Link	ST Express
2005	<ul style="list-style-type: none"> Track and signal projects on all segments Lakewood Right of Way Lakewood Station Reservation to Freighthouse Square 	<ul style="list-style-type: none"> Central Line (45th to CPS; CPS to 154th; Downtown & Beacon Hill tunnels; Martin Luther King Way; 154th to 200th) Tukwila Alignment Beacon Hill & McClellan Stations E-3 Busway Traction Power System Operations and Maintenance Base Light Rail Vehicles 	<ul style="list-style-type: none"> Federal Way Transit Center HOV Access (Federal Way and Eastgate) Totem Lake Freeway Station Issaquah Highlands Park & Ride
2004	<ul style="list-style-type: none"> Track and signal projects on all segments Second easement Everett-to-Seattle 	<ul style="list-style-type: none"> Central Line (CPS to 154th; Downtown & Beacon Hill tunnels; Martin Luther King Way; South Morgan to Norfolk; 126th St. to 150th St.) Beacon Hill Station Line E-3 Busway Operations and Maintenance Base Light Rail Vehicles 	<ul style="list-style-type: none"> Federal Way Transit Center HOV Access (Bellevue, Lynnwood, Ash Way and Federal Way)

Buildings, transit facilities, and rail decreased by \$2.4 million from 2004, reflecting depreciation charges in excess of additions. Assets capitalized during the year include the temporary Souder platform at Tukwila Station, as well as asset retirement costs for the Souder stations in South King and Pierce County. Recent accounting pronouncements were issued with respect to the capitalization and accrual of the costs of legal obligations to remove property at the end of its useful life or lease term. The impact of this change is fully described in Note 11 to the 2005 Financial Statements. In 2004, buildings and transit facilities decreased by \$2.4 million, reflecting depreciation charges in excess of additions. Additions in 2004 included rail on the Lakewood-to-Tacoma North Line, \$4.7 million related to ticket vending machines at Souder stations as well as additional costs related to the Lynnwood Transit Center and Park-and-Ride, which went into use in the prior year.

Revenue vehicles decreased by \$3.7 million, reflecting depreciation charges in excess of additions. Assets capitalized during the year reflect \$6.5 million in additional fleet vehicle purchases for ST Express to meet service requirements. In 2004, revenue vehicles increased by \$15.5 million from 2003, also due to the purchase of additional fleet vehicles for ST Express.

Equipment, vehicles and other was consistent with the prior year. During 2005 the Agency replaced its almost fully depreciated telephone system, as well as a portion of its computer equipment in accordance with an established replacement program. This category increased in 2004 by \$0.6 million from 2003 with the addition of replacement copier equipment. This category includes office furniture and equipment, as well as administrative vehicles.

More detailed information about Sound Transit's capital assets is presented in Note 5 to the Financial Statements.

LONG-TERM DEBT

In March, 2005, the Agency issued sales tax bonds with a par value of \$422.8 million at a premium of \$20.8 million for net proceeds before bond issue costs of \$443.6 million. Total bond issue costs were \$4.1 million. The Agency also has outstanding sales and motor vehicle excise tax bonds issued in 1999, and at December 31, 2005, Sound Transit had \$772.8 million in par value bonds issued and outstanding (\$350 million in 2004). The 1999 bonds have been rated as Aa3 by Moody's Investor Services, Inc. and AA by Standard & Poor's and the 2005A bonds Aa3 and AA-, respectively.

Under state law, issuance of bonds payable from any type of taxes is subject to statutory debt limitations. Sound Transit is currently authorized to incur debt in an amount equal to 1-1/2 percent of the value of taxable property within the service area, without securing voter approval for bonds. With the approval of 60 percent of the region's voters, Sound Transit may incur aggregate indebtedness of up to 5 percent of the value of taxable property within the service area. Based on the 2004 assessed valuations for collection of 2005 taxes, Sound Transit's non-voter approved remaining debt capacity is \$3.7 billion and its voter approved remaining debt capacity is \$14.1 billion.



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Independent Auditors' Report

Audit and Reporting Subcommittee of the Board
 Central Puget Sound Regional Transit Authority:

We have audited the accompanying basic financial sheets of Central Puget Sound Regional Transit Authority, a public corporation acting under the service name of Sound Transit as of and for the years ended December 31, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of Sound Transit's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Puget Sound Regional Transit Authority as of December 31, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we also issued a report dated May 5, 2006 on our consideration of Central Puget Sound Regional Transit Authority internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of the testing and not to provide an opinion on the internal controls over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 21 through 32 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

Seattle, Washington
 May 5, 2006

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BALANCE SHEETS

(in thousands)	December 31	
	2005	2004
ASSETS		
Current Assets		
Cash and cash equivalents (Note 3)	\$ 116,466	\$ 204,470
Restricted assets (Note 3)	8,817	7,871
Investments (Note 3)	455,856	250,462
Taxes and other receivables (Note 4)	97,344	87,801
Parts, materials and supplies	3,146	3,118
Prepaid expenses	6,674	4,863
Total Current Assets	688,303	558,585
Non-Current Assets		
Capital assets, net of accumulated depreciation (Note 5)	2,277,570	1,773,591
Restricted assets (Note 3)	326,463	162,188
Investment held to pay capital lease obligation (Note 6)	59,083	57,856
Long-term receivables (Note 7)	4,577	458
Unamortized bond issuance costs	6,446	2,706
Prepaid expense and deposits	4,771	6,402
Total Non-Current Assets	2,678,910	2,003,201
Total Assets	\$ 3,367,213	\$ 2,561,786
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities (Note 8)	\$124,124	\$74,094
Deferred receipts	3,471	2,657
Interest payable from restricted assets	10,582	7,152
Current portion, long-term debt (Note 9)	10,116	-
Current portion, capital lease obligation (Note 6)	177	266
Other	19,195	5,549
Total Current Liabilities	167,665	89,718
Non-Current Liabilities		
Long-term debt (Note 9)	791,198	353,071
Compensated absences (Note 10)	2,025	1,605
Capital lease obligations (Note 6)	59,588	58,346
Asset retirement obligations (Note 11)	2,015	-
Total Non-Current Liabilities	854,826	413,022
Total Liabilities	1,022,491	502,740
Commitments and Contingencies (Notes 6, 13, 14, 15 and 16)		
Net Assets		
Invested in capital assets, net of related debt	1,674,918	1,422,469
Restricted for contractual arrangements and other (Note 12)	131,799	162,908
Unrestricted	538,005	473,669
Total Net Assets	2,344,722	2,059,046
Total Liabilities and Net Assets	\$ 3,367,213	\$ 2,561,786

See Notes to Financial Statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

(in thousands)	December 31	
	2005	2004
Operating Revenues		
Passenger fares	\$ 16,483	\$ 13,205
Other operating revenue	3,376	3,403
Total Operating Revenues	19,859	16,608
Operating Expenses		
Operations and maintenance	81,103	70,870
General and administrative	17,199	15,987
Loss on disposal of assets	8	108
Depreciation, amortization and accretion	34,477	22,956
Total Operating Expenses	132,787	109,921
Loss from Operations	(112,928)	(93,313)
Non-Operating Revenues (Expenses)		
Sales tax	239,785	219,020
Motor vehicle excise tax	66,308	64,714
Rental car tax	2,245	2,166
Investment income	26,090	10,626
Other revenues	5	15
Non-operating expenses	(15,280)	(14,592)
Interest expense	(252)	(74)
Discontinued projects	(6,330)	(194)
Loss on change in interlocal agreement	-	(4,584)
Loss on disposal of assets	(353)	(920)
Total Non-Operating Revenues, Net	312,218	276,177
Income Before Capital Contributions	199,290	182,864
Capital contributions to other governments	(55,888)	(99,118)
Federal capital contributions	135,393	68,842
Other capital contributions	7,092	27,617
Net Capital Contributions	86,597	(2,659)
Change in Net Assets Before Cumulative Effect Adjustment	285,887	180,205
Cumulative effect of accretion expense (Note 11)	211	-
Change in Net Assets	285,676	180,205
Total Net Assets, Beginning of Year	2,059,046	1,878,841
Total Net Assets, End of Year	\$ 2,344,722	\$ 2,059,046

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

(in thousands)	December 31	
	2005	2004
Cash Flows from Operating Activities		
Cash receipts from fares	\$ 12,538	\$ 15,277
Cash receipts from other operating revenue	3,709	3,532
Payments to suppliers	(14,996)	(12,894)
Payments to transportation service providers	(51,098)	(51,681)
Payments to employees for wages and benefits	(21,744)	(21,335)
Net Cash Used by Operating Activities	(71,591)	(67,101)
Cash Flows from Non-Capital Financing Activities		
Taxes received	303,825	281,492
Net Cash Provided by Non-Capital Financing Activities	303,825	281,492
Cash Flows from Capital and Related Financing Activities		
Capital contributions from grants	136,188	48,556
Proceeds on issuance of bonds	439,977	-
Proceeds from insurance settlement	5,550	-
Purchase of properties, vehicles and equipment	(8,726)	(9,003)
Payments in respect of capital projects in progress	(483,154)	(434,325)
Payments to employees capitalized to capital projects in progress	(11,854)	(11,542)
Cash paid for interest	(29,262)	(17,095)
Payments to suppliers for non-operating expenses	(15,280)	(14,592)
Payments for betterments and recoverable cost, net of repayments	(5,755)	(3,729)
Other	(460)	377
Net Cash Provided (Used) by Capital and Related Financing Activities	27,224	(441,353)
Cash Flows from Investing Activities		
Purchases of investments	(578,998)	(236,456)
Proceeds from sales or maturities of investments	267,413	297,315
Investment income	24,629	18,560
Net Cash (Used) Provided by Investing Activities	(286,956)	79,419
Net Decrease in Cash and Cash Equivalents	(27,498)	(147,543)
Cash and Cash Equivalents		
Beginning of year	256,473	404,016
End of Year	\$ 228,975	\$ 256,473
Cash and Cash Equivalents (Note 3)		
Unrestricted	\$ 116,466	\$ 204,470
Current restricted	2,445	1,072
Non-current restricted	110,064	50,931
	\$ 228,975	\$ 256,473

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS, continued

(in thousands)	December 31	
	2005	2004
Loss from Operations	\$ (112,928)	\$ (93,313)
Adjustments to Reconcile Loss from Operations to Net Cash Used by Operating Activities		
Depreciation amortization and accretion	34,477	22,956
Loss (gain) on disposal of capital assets	8	108
Changes in Operating Assets and Liabilities		
(Increase) decrease in accounts receivable	38	(114)
Increase in due from other governments	(1,471)	(339)
(Increase) decrease in materials, parts and supplies	(28)	(484)
Decrease (increase) in prepaid expenses	(148)	362
Increase (decrease) in accounts payable, accrued and other liabilities	5,481	3,171
(Decrease) increase in salaries, wages and benefits	329	(437)
Increase in deferred fare pass revenue	(1,223)	204
Increase in due to other governments	3,447	792
Decrease in loss fund	427	(7)
Net Cash Used by Operating Activities	\$ (71,591)	\$ (67,101)

(in thousands)	December 31	
	2005	2004
Supplemental Disclosures of Non-Cash Operating, Investing and Financing Activities		
Capital contributions to other governments	\$ (55,888)	\$ (99,118)
Capital contributions from Landbank	4,750	26,743
Exchange of land or easements with other governments	1,696	-
Capital asset acquisitions in accounts payable and accrued liabilities	54,816	19,158
Promissory note taken back on acquisition of land	5,437	5,740
Loss on change in interlocal agreement	-	(4,584)
Interest income from investments held to pay capital leases, net	1,227	1,199
Interest expense on capital leases, net	(1,227)	(1,199)
Increase (decrease) in fair value of investments	1,830	(4,152)

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

1. ORGANIZATION AND REPORTING ENTITY

As provided under the Revised Code of Washington ("RCW") Chapter 81.112 applicable to a regional transit authority, the Central Puget Sound Regional Transit Authority, a public corporation acting under the service name of Sound Transit, was established in 1993. Sound Transit was formed to implement a high-capacity transportation system throughout parts of King, Pierce, and Snohomish counties in the State of Washington through the design, construction, and implementation of a commuter rail ("Sounder"), light rail ("Link") and regional express bus system ("ST Express").

Reporting Entity – Sound Transit is a special purpose government supported primarily through sales tax, motor vehicle excise tax and rental car tax in Sound Transit's operating jurisdiction. In addition Sound Transit receives capital funding from federal and state agencies.

Sound Transit is governed by an 18-member board, seventeen of whom are appointed by the respective member county executives and confirmed by the council of each member county. Membership is based on the population from the portion of each county that lies within Sound Transit's service area. Representation on the board shall include an elected official representing the largest city in each county and ensures proportional representation from other cities and from unincorporated areas of each county. The final board position is held by the Secretary of Transportation, Washington State Department of Transportation.

Accounting principles generally accepted in the United States of America require that the reporting entity include the primary government, all organizations for which the primary government is financially accountable and other organizations that, by the nature and significance of their relationship with the primary government, would cause the financial statements to be incomplete or misleading if excluded. Based on these criteria, Sound Transit is considered a primary government and does not have any component unit relationships. Conversely, Sound Transit is not considered a component unit of any primary government.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following summary of significant accounting policies is presented to assist the reader in interpreting the financial statements and should be considered an integral part of the financial statements.

Basis of Accounting—The accounts are maintained and financial statements prepared using the economic resources measurement focus and accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and methods prescribed by the State Auditor under the authority of RCW Chapter 43.09 for proprietary funds. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. All applicable GASB pronouncements, as well as all Financial Accounting Standards Board ("FASB") statements and interpretations have been applied, except for those FASB statements and interpretations that contradict GASB pronouncements.

Tax revenues include taxes on retail sales of goods and services, rental car revenue and a motor vehicle excise tax. These taxes are levied within the district at a rate of 0.4% for sales and use, 0.8% on rental car revenue and 0.3% for motor vehicle excise. These taxes are collected on Sound Transit's behalf by the Department of Revenue and the Department of Licensing of the State of Washington and are recorded in the period when the underlying transaction occurs on which the tax is imposed.

Operating revenues consist primarily of passenger fares and are recognized in the period in which services are provided and are earned, and expenses are recognized in the period in which they are incurred. All assets and liabilities associated with the operation of Sound Transit are included in the Balance Sheets. Depreciation of capital assets and amortization of deferred revenue is recognized in the Statements of Revenues, Expenses and Changes in Net Assets.

Capital Assets—Capital assets are stated at cost, except for donated capital assets which are stated at the fair value on the date of donation. Expenditures for additions and improvements with a value in excess of \$5,000 and a useful life of more than one year are capitalized. Expenditures for maintenance, repairs

and minor improvements are charged to operations as incurred. Upon disposal of capital assets, the accounts are relieved of the related costs and accumulated depreciation and the resulting gains or losses are reflected in the Statements of Revenues, Expenses and Changes in Net Assets. Depreciation of capital assets is recorded using the straight-line method over the estimated useful lives of the assets and leasehold improvements over the shorter of the life of the asset or length of the related agreement as follows:

	Estimated Useful Life
Rail access rights	37 years
Buildings	8–30 years
Transit facilities, rail, and equipment	7–30 years
Park-and-ride lots and shelters	10 years
Revenue vehicles—Cab cars and coach cars	40 years
Revenue vehicles—Locomotives	29 years
Revenue vehicles—Light rail	25 years
Revenue vehicles—Buses	12 years
Furniture and equipment	3–7 years
Administrative vehicles and leasehold improvements	5 years

On an annual basis, Sound Transit evaluates whether events or circumstances have occurred affecting capital assets that are other than temporary in nature and result in an impairment of those assets. Impairment is considered to have occurred if there is a decline in the service utility that is large in magnitude and the event or circumstance is outside the normal life cycle of the asset. Impairment losses on assets that will no longer be used are reported at the lower of carrying value or fair value. Impairment losses on assets that will continue to be used are measured using the best method that reflects the diminished service utility of the related asset.

All costs directly attributable to capital projects, as well as certain indirect costs that are allocated to the projects based on various applicable factors supporting the overhead rates used, are capitalized. Capital projects in progress balances include costs incurred for transportation projects not yet in service and are segregated between assets in which Sound Transit maintains a continuing ownership interest and capital assets that will be transferred to other governments upon completion.

Rail access costs reflect the cost of acquiring rights from BNSF for the Tacoma-to-Seattle and Everett-to-Seattle segments. In the Tacoma-to-Seattle corridor these rights were acquired in an amount equal to the

funding of necessary track and signal improvements on the line and in the Everett-to-Seattle corridor through the direct acquisition of easements. In addition, these costs include Sound Transit's direct and indirect costs related to the planning and design, environmental management and permitting. The rail access rights for additional round trip service are acquired incrementally, as certain requirements are met under their respective agreements, and accordingly ongoing costs are capitalized to the depreciable asset on a quarterly basis.

Interest costs on funds borrowed through tax-exempt debt to finance the construction or acquisition of certain capital assets are capitalized during the period of construction or acquisition and are depreciated over the life of the related assets once placed into service.

Capital Contributions to Other Governments—Pursuant to capital improvement agreements, Sound Transit has provided funding to or constructed assets for various governments or their wholly-owned subsidiaries for transit-related capital improvements. For assets constructed for other governments, these costs are capitalized and included in capital projects in progress until the asset is substantially completed and accepted, at which time it is charged to contributions to other governments.

Cash and Cash Equivalents—Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with maturities of three months or less when purchased, money market funds, investments in the Local Government Investment Pool and the King County Investment Pool, which are managed by the Washington State Treasurer's Office and the King County Finance Division, respectively.

Compensated Absences—Vacation leave that has been earned but not paid has been accrued in the accompanying financial statements. Similarly, sick leave is accrued as the benefits are earned but only to the extent that Sound Transit will compensate the employees through cash payments conditional on the employee's termination, retirement or death. Vacation pay, which may be accumulated up to 50 days, is payable upon termination, retirement or death. Sick leave is payable at the rate of 50% upon resignation, retirement or death for employees hired before January 1, 2004, and 25% thereafter and is limited to 120 days for termination other than retirement or death.

Environmental Reserves—Environmental liabilities are evaluated at the time of purchase of land and are factored into the purchase price. The estimated cost of remediation is accrued at the time of purchase and relieved as remediation costs are incurred.

Investment Valuation—Investments are stated at fair value based on quoted market prices, as available.

Operating and Contingency Fund—In accordance with Board policy, Sound Transit maintains a cash reserve based on two months of average annual operating expenses, to be used in the event of budget shortfalls. As this is an internally-restricted cash balance, this balance is included in cash and cash equivalents.

Parts, Materials and Supplies—Parts, materials and supplies are recorded as inventory at the lower of purchased cost or net realizable value. These assets are reviewed periodically for slow-moving and obsolete items, and any impairment in value is reflected as a charge to operations.

Restricted Assets—Restricted assets are assets restricted by the covenants of long-term financial arrangements. Restricted assets are used in accordance with their requirements, and where both restricted and unrestricted resources are available for use, restricted resources are used first and then unrestricted resources as they are needed.

Revenue and Expense Classification—Sound Transit distinguishes operating revenues and expenses from non-operating items in the preparation of its financial statements. Operating revenues and expenses generally result from providing passenger services in connection with Sound Transit's principal ongoing operations. The principal operating revenues are passenger fares. Sound Transit's operating expenses include labor, materials, services, claims, purchased transportation and other expenses related to the delivery of passenger transportation within the Central Puget Sound region. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Reclassifications—Certain reclassifications have been made to the 2004 Financial Statements to conform to the current year's presentation.

Risk Management—Risks of loss related to tort; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters

are accrued at estimated award or settlement when it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated.

Subarea Accounting—Sound Transit allocates equity to each of the included jurisdictions in accordance with *Sound Move* and established policies. Presentation of such allocation is not a required disclosure under accounting principles generally accepted in the United States of America. Accordingly, a separate agreed upon procedures report and Schedule of Subarea Equity is issued.

Use of Estimates—The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. CASH, CASH EQUIVALENTS, INVESTMENTS AND RESTRICTED ASSETS

Sound Transit's bank deposits are covered by the Federal Deposit Insurance Corporation ("FDIC") or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission ("PDPC"). All deposits not covered by the FDIC are covered by the PDPC. Cash held in the Local Government Investment Pool and the King County Investment Pool are managed by the Washington State Treasurer's Office and the King County Finance Division, respectively. These pools represent an interest in a group of securities and have no specific security subject to custodial risk.

All surplus cash is invested in compliance with state law and in accordance with an investment policy approved by Sound Transit's Board and certified by the Municipal Treasurer's Association. Qualifying investments under this policy include obligations of the United States government, Treasury and Agency securities, bankers' acceptances, certificates of deposit, commercial paper and repurchase agreements. Sound Transit's investment policy addresses common deposit and investment risks as described below.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Sound Transit manages its exposure to fair value losses by matching its investments to cash flow requirements and by comparing the modified duration of fixed income securities in its investment portfolios to established benchmarks. Deviation from the established benchmark within 25% is considered acceptable. Modified duration estimates the sensitivity of a bond's price to interest rate changes. At December 31, 2005, benchmark duration for Sound Transit's unrestricted portfolio was 1.12 and its restricted portfolio was 0.51. Actual modified duration by investment type is presented in the table on the following page.

Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification or having too much invested in a few individual issues. The investment policy sets forth maximum concentration guidelines whereby no single Agency exceeds 50% of the overall portfolio, or 10% for certificates of deposit, bankers' acceptances, repurchase agreements, general obligation bonds and A1/P1 commercial paper. Treasury securities may comprise up to 100% of the portfolio, as well as participation in the Washington State Treasurer's Local Government Investment Pool. Agency securities (combined) may comprise up to 75% of the portfolio. Participation

in the King County Investment Pool is limited to 50% of the portfolio. The table below provides the percentage invested in each type of investment as of December 31, 2005.

Credit Risk

Credit risk is the chance that an issuer will fail to pay principal or interest in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause the price of the investment to decline. All Agency securities in our portfolios are rated AAA, and the Certificate of Deposit is covered by the PDPC. The King County Investment Pool is rated AA+ and the Washington State Treasurer's Local Government Investment Pool is a 2a7-like pool and is unrated.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, Sound Transit would not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All investments purchased by Sound Transit are held and registered in Sound Transit's name in the Trust Department or safekeeping department of a financial institution, as established by a written third party safekeeping agreement between Sound Transit and the financial institution.

Cash, cash equivalents, investments and restricted assets are as follows (modified duration in years):

(in thousands)	2005			2004		
	Fair Value	Modified Duration	% of Portfolio	Fair Value	Modified Duration	% of Portfolio
Categorized Deposits and Investments						
US agency securities						
Federal Farm Credit Bank	\$ 59,626	0.833	8.45%	\$ 46,450	1.095	11.37%
Federal Home Loan Bank	222,913	0.815	31.60%	102,740	0.949	25.16%
Federal Home Loan Mortgage Corporation	135,805	0.712	19.25%	27,093	0.566	6.63%
Federal National Mortgage Association	87,660	0.554	12.43%	137,765	0.973	33.74%
US treasury securities	165,198	0.634	23.42%	44,625	0.994	10.93%
Certificates of deposits	8,000	0.160	1.13%	8,000	1.140	1.96%
Taxable municipal bonds	-	0.000	0.00%	1,250	0.000	0.31%
Repurchase agreement	250	0.000	0.04%	630	0.000	0.15%
FDIC or PDPC insured bank deposits	25,927	0.000	3.68%	39,815	0.000	9.75%
	705,379	0.684	100.0%	408,368	0.861	100.00%
Uncategorized Cash and Cash Equivalents						
King County Investment Pool	54,540	0.510		181,158	0.680	
Washington State Local Government Inv. Pool	140,471			27,414		
Cash on hand	38			86		
	195,049			208,658		
Other Restricted Assets						
Deductible liability protection policy	6,372			6,799		
Interest receivable on restricted investments	802			1,166		
	7,174			7,965		
Total Cash, Cash Equivalents, Investments and Other Restricted Assets	\$ 907,602			\$ 624,991		

(in thousands)	December 31	
	2005	2004
Balance Sheet Classifications		
Cash and cash equivalents	\$ 116,466	\$ 204,470
Current restricted assets:		
Cash equivalents	2,445	1,072
Deductible liability protection policy	6,372	6,799
	<u>8,817</u>	<u>7,871</u>
Investments	<u>455,856</u>	<u>250,462</u>
Non-current restricted assets:		
Cash Equivalents	110,064	42,931
Investments	215,596	118,091
Other assets	803	1,166
	<u>326,463</u>	<u>162,188</u>
	<u>\$ 907,602</u>	<u>\$ 624,991</u>

4. RECEIVABLES

Receivables consist of the following:

(in thousands)	December 31	
	2005	2004
Taxes receivable	\$ 51,315	\$ 46,801
Grants receivable	27,530	25,982
Accounts receivable*	5,057	7,249
Due from Other Governments	8,866	5,504
Interest receivable	4,544	2,242
Current portion supplemental mitigation advances	32	23
	<u>\$ 97,344</u>	<u>\$ 87,801</u>

*Net of provision for doubtful accounts of \$6 thousand (\$22 thousand in 2004).

Amounts due from other governments include amounts due under the Puget Pass regional fare program, amounts reimbursable under interlocal agreements for operating expenses or capital contributions for transit facilities and betterments. Payment terms are generally defined in the various

agreements with other governments and range from 21 days to 60 days. Where payment terms are not defined by agreement, they are due in accordance with the terms specified in the invoice, which is generally 30 days.

5. CAPITAL ASSETS

Capital assets are summarized as follows:

(in thousands)	December 31, 2003	Additions	Transfers and Retirements	December 31, 2004	Additions	Transfers and Retirements	December 31, 2005
Non-Depreciable Assets							
Land	\$ 171,859	\$ 82,014	\$ (6,771)	\$ 247,102	\$ 23,730	\$ (1,696)	\$ 269,136
Permanent easements	79,057	79,041	-	158,098	2,869	-	\$ 160,967
Capital Projects in Progress							
Sound Transit	624,996	436,768	(371,424)	690,340	511,613	(130,827)	1,071,126
Other Governments	<u>104,926</u>	<u>66,417</u>	<u>(91,629)</u>	<u>79,714</u>	<u>75,033</u>	<u>(34,895)</u>	<u>119,852</u>
Total Non-Depreciable Assets	980,838	664,240	(469,824)	1,175,254	613,245	(167,418)	1,621,081
Depreciable Assets							
Transit facilities, rail and heavy equipment	205,124	9,282	(978)	213,428	10,379	-	223,807
Rail access rights	-	198,958	-	198,958	71,940	-	270,898
Buildings and leasehold improvements	22,760	139	-	22,899	300	(31)	23,168
Revenue vehicles	197,880	25,106	-	222,986	8,153	-	231,139
Furniture, equipment and vehicles	10,987	1,828	(25)	12,790	1,654	(469)	13,975
Equipment under capital lease	<u>607</u>	<u>658</u>	<u>(308)</u>	<u>957</u>	<u>205</u>	<u>(299)</u>	<u>863</u>
Total Depreciable Assets	437,358	235,971	(1,311)	672,018	92,631	(799)	763,850
Accumulated Depreciation							
Transit facilities and heavy equipment	(12,488)	(9,853)	141	(22,200)	(12,044)	-	(34,244)
Rail access rights	-	(456)	-	(456)	(7,826)	-	(8,282)
Buildings and leasehold improvements	(3,885)	(991)	-	(4,876)	(928)	19	(5,785)
Revenue vehicles	(26,902)	(9,619)	-	(36,521)	(11,788)	-	(48,309)
Furniture, equipment and vehicles	(7,497)	(1,892)	15	(9,374)	(1,594)	418	(10,550)
Equipment under capital lease	<u>(419)</u>	<u>(144)</u>	<u>309</u>	<u>(255)</u>	<u>(202)</u>	<u>265</u>	<u>(192)</u>
Total Accumulated Depreciation	(51,191)	(22,955)	465	(73,681)	(34,382)	702	(107,361)
Depreciable Assets, Net	386,167	213,016	(846)	598,337	58,249	(97)	656,489
Total Capital Assets, Net	\$1,367,005	\$ 877,256	\$(470,670)	\$1,773,591	\$ 671,494	\$ (167,515)	\$ 2,277,570

During 2005, Sound Transit relieved \$165.7 million of costs from capital projects in progress of which \$55.9 million relate to completed projects and payments to other governments pursuant to capital related interlocal agreements. Completed projects and payments included Ash Way Transit Access/ 164th SW, SR900 Park & Ride Arterial improvements, Issaquah Highlands Park & Ride, City of Everett contribution – Everett Station, Redondo Heights Park & Ride/SR99, Smart Card partner agency contributions and Woodinville Arterial enhancements. The costs of these completed projects are included in contributions to other governments in the Statements of Revenues, Expenses and Changes in Net Assets.

During 2004, Sound Transit relieved \$463.0 million of costs from capital projects in progress of which \$99.1 million in projects were ultimately owned by other governmental entities pursuant to capital improvement agreements. Completed projects included Bellevue and Lynnwood HOV access. The costs of these completed projects are included in contributions to other governments in the Statements of Revenues, Expenses and Changes in Net Assets.

During 2005, Sound Transit capitalized \$32.0 million of interest costs, (\$17.1 million in 2004), representing all of the interest incurred on its bonds outstanding (see Note 9).

6. CAPITAL AND OPERATING LEASES

Capital leases are comprised of the following:

(in thousands)	2005	2004
Lease/leaseback	\$ 59,083	\$ 57,856
Copier leases	682	756
	59,765	58,612
Less current portion	(177)	(266)
	\$ 59,588	\$ 58,346

Lease/Leaseback—On May 31, 2001, Sound Transit entered into a transaction to lease 22 rail passenger cab and coach cars and 5 locomotives (the “headlease”) to an investor and simultaneously subleased the vehicles back (the “sublease”). Under these transactions, Sound Transit maintains the right to continued use and control of the assets through the end of the leases and is required to insure and maintain the assets. The headlease and sublease have been recorded as capital leases for accounting purposes.

The vehicles had a fair market value of \$61.3 million with a book value of \$37.7 million at closing. Sound Transit received a prepayment equivalent to the net present value of the headlease obligations totaling \$61.3 million. From those proceeds, \$50.4 million was deposited with AIG-FP Special Finance Ltd. to partially meet Sound Transit’s obligations under the sublease payments. In addition, \$5.7 million was deposited with AIG Matched Funding Corp. and invested in securities issued or guaranteed by the United States government to meet the remaining obligations under the sublease. The remaining \$4.9 million (net of closing costs of \$363 thousand) was retained by Sound Transit and recorded as non-operating revenues in the year ended December 31, 2001.

The amounts invested are considered uncategorized investments. The net present value of the future sublease payments has been recorded as a long-term capital lease obligation. The underlying investments have been structured to meet all future obligations under the sublease when due, and as such, have been recorded to equal the sublease obligations on the accompanying balance sheet.

Net changes in the sublease are shown in the following table:

(in thousands)	2005	2004
Net sublease, January 1	\$ 57,856	\$ 56,657
Accrued interest	4,330	4,241
Less payment	(3,103)	(3,042)
Net Sublease, December 31	\$ 59,083	\$ 57,856

Copier Leases—Sound Transit has entered into various agreements for the acquisition or rental of copiers. Certain of the equipment covered by these agreements is classified as a capital lease for accounting purposes and has been recorded as a capital asset with a corresponding long-term liability equal to the present value of future lease payments. Sound Transit records lease payments as reductions of the long-term liability and as interest expense over the life of the lease.

Future payments under the copier lease obligations are shown in the following table:

(in thousands)	December 31 2005
2006	\$ 206
2007	199
2008	188
2009	138
2010	16
Total minimum lease payments	747
Amounts representing interest	65
Present value of lease obligations	682
Less current portion	(177)
Long-term portion	\$ 505

Amtrak Lease/Sublease—In September 2000, Sound Transit entered into a 40-year agreement to lease its locomotives, passenger coaches and cab cars (“rolling stock”) to the National Railroad Passenger Corporation (“Amtrak”) for \$1. Under the agreement Amtrak is obligated to repair, maintain and service the rolling stock at Amtrak’s maintenance facility in return for payment by Sound Transit. By separate agreement, Sound Transit assigned to Amtrak its commuter rail operating agreement which it had entered into with the Burlington Northern & Santa Fe

Railroad ("BNSF") in May 2000 to provide commuter rail service. In order to give BNSF possession and use of the rolling stock for purposes of providing commuter rail service on Amtrak's behalf for Sound Transit, Amtrak entered into a 40-year sublease of the rolling stock to BNSF for a nominal rental payment of \$1.

Under the legal structure of these transactions and pursuant to a Department of Revenue ruling, the equipment is exempted from Washington State sales and use taxes, and Sound Transit and Amtrak have agreed by a Memorandum of Understanding to use funds that would otherwise be payable for projects that mutually benefit Pacific Northwest intercity rail passenger service. Sound Transit maintains title and continuing control of the assets through the end of the lease, upon which the assets will be returned to Sound Transit.

Operating Rentals—Sound Transit leases office space, parking, land and storage at various locations including space adjacent to Union Station, in Seattle's Rainier Valley district and in Tacoma under non-cancelable operating leases in excess of one year with lease terms expiring in 2007 through 2010. Effective July 1, 2005, the annual base rate decreased for the major lease from \$25.25 sf to \$14.25 sf. This amended lease includes a three-tier base rent structure for the next five years which is equal to 95% of the annual market rate for comparable space. The lease arrangements also include an allowance of \$5.00 sf for costs incurred by Sound Transit to refurbish the premises, and there is an option to extend the lease for another five-year term, beyond June 30, 2010.

Minimum lease payments through 2010 are as follows:

Operating Rentals, commitments next 5 years:

(in thousands)		
2006	\$	2,114
2007		1,725
2008		1,196
2009		1,135
2010		609
	\$	6,779

Total rental payments for 2005, which include non-cancelable leases as well as other month-to-month rentals, were \$1.9 million of which \$127 thousand

was for capital projects in progress. Total payments for 2004 were \$1.4 million, of which \$73 thousand was for capital projects in progress.

7. LONG-TERM RECEIVABLES

Long-term receivables consist of the following:

(in thousands)	2005	2004
City of Seattle	\$ 9,221	\$ 207
Supplemental mitigation advances	251	274
	\$ 9,472	\$ 481
Less current portion	(4,895)	(23)
	\$ 4,577	\$ 458

Amounts owed by the City of Seattle relate to the Downtown Seattle Traffic and Street Improvements Agreement and the Memorandum of Agreement for Undergrounding of Overhead Utilities along Martin Luther King, Jr. Way South. Under those agreements, or as modified in writing, Sound Transit has accepted repayment of the amounts to be funded by the City through December, 2007. The current portion due under these agreements is included in Due from Other Governments.

Supplemental mitigation advances are advances for working capital, tenant improvements and equipment purchases to qualifying Rainier Valley businesses and property owners to mitigate the effects of light rail construction. These advances bear interest and must be repaid in full over the life of their agreement with repayment terms varying from 5 to 8½ years.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following:

(in thousands)	2005	2004
Accounts payable	\$ 38,522	\$ 31,648
Accrued liabilities	41,714	11,754
Due to other governments	42,118	28,816
Accrued salaries, wages and benefits	1,695	1,613
Retainage payable	75	263
	\$ 124,124	\$ 74,094

9. LONG-TERM DEBT

Long-term debt consists of the following:

(in thousands)	2005 Beginning Balance	Additions	Reductions	2005 Ending Balance	Amounts Due within One Year
Bonds payable:					
Series 1999 Bonds, at par	\$ 350,000	\$ -	\$ -	\$ 350,000	\$ 4,270
Series 2005A Bonds, at par	-	422,815	-	422,815	-
	350,000	422,815	-	772,815	4,270
Plus unamortized premium	4,764	20,888	(1,431)	24,221	-
Less unamortized discount	(7,433)	(67)	383	(7,117)	-
Total bonds payable	347,331	443,636	(1,048)	789,919	4,270
Promissory notes:					
Lakeview North Line, replacement	-	3,000	-	3,000	3,000
Lakeview South Line	-	9,000	-	9,000	3,000
Lakeview North Line	6,000	-	(6,000)	-	-
	6,000	12,000	(6,000)	12,000	6,000
Plus (minus) imputed interest	(260)	(712)	367	(605)	(154)
Total promissory notes payable	5,740	11,288	(5,633)	11,395	5,846
Total Long-Term Debt	\$ 353,071	\$ 454,924	\$ (6,681)	\$ 801,314	\$ 10,116

(in thousands)	2004 Beginning Balance	Additions	Reductions	2004 Ending Balance	Amounts Due within One Year
Bonds payable					
Series 1999, at par	\$ 350,000	\$ -	\$ -	\$ 350,000	\$ -
Plus unamortized premium	5,202	-	(438)	4,764	-
Less unamortized discount	(7,811)	-	378	(7,433)	-
Total bonds payable	347,391	-	(60)	347,331	-
Promissory notes:					
Lakeview North Line	-	6,000	-	6,000	-
Plus (minus) imputed interest	-	(296)	36	(260)	-
Total promissory notes payable	-	5,704	36	5,740	-
Total Long-Term Debt	\$ 347,391	\$ 5,704	\$ (24)	\$ 353,071	\$ -

Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999—On January 6, 1999, Sound Transit issued tax-exempt Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999 dated December 1, 1998, in the amount of \$350 million. The average life of these bonds is 22.5 years with an average coupon rate of 4.88% and an effective rate of 4.60%. The bonds are

special limited obligations of Sound Transit payable from and secured solely by a pledge of Sound Transit's sales and use tax, motor vehicle excise tax and rental car tax imposed at the rates of 0.4%, 0.3%, and 0.8% respectively. Sound Transit is required to maintain certain minimum deposits as defined in the bond resolution to meet debt service requirements.

At December 31, 2005, and 2004, cash restricted for debt service totaled \$11.4 million and \$7.2 million respectively. Principal payments are due February 1 of each year starting in 2006. Proceeds from this bond issue have been used for the Agency's capital projects. These bonds were upgraded from a rating of A1 to Aa3 (Moody's Investor Services) in 2005 and are rated AA by Standard & Poors.

The fair value of the Series 1999 bonds was \$366.1 million and \$367.4 million as of December 31, 2005, and 2004, respectively. This fair value was estimated using quoted market prices.

Sales Tax Bonds, Series 2005A—On March 31, 2005, Sound Transit issued tax-exempt Sales Tax Bonds, Series 2005A dated March 31, 2005, in the amount of \$422.8 million. These bonds were issued on a subordinate basis to the Sales Tax and Motor Vehicle Excise Tax Bonds, Series 1999. The average life of these bonds is 18.5 years with an average coupon rate of 4.95% and an effective rate of 5.03%. These bonds are special limited obligations of Sound Transit payable from and secured solely by a pledge of Sound Transit's sales and use tax and rental car tax imposed at the rates of 0.4% and 0.8% respectively.

Sound Transit is required to maintain certain minimum deposits as defined in the bond resolution to meet debt service requirements. At December 31, 2005, cash restricted for debt service totaled \$3.4 million. In addition, the Agency established a \$39.5 million reserve for the bonds, consistent with the Parity Bond Resolution. Proceeds from this bond issue are being used for the Agency's capital projects. The bonds received underlying ratings of Aa3 (Moody's Investor Services) and AA- (Standard and Poor's).

The fair value of the Series 2005A bonds was \$443.5 million as of December 31, 2005. This fair value was estimated using quoted market prices.

Debt service requirements for bonds payable

Year Ending December 31	(in thousands)		
	Principal	Interest	Total
2006	\$ 4,270	\$ 37,659	\$ 41,929
2007	4,445	37,485	41,930
2008	4,620	37,301	41,921
2009	4,810	37,205	42,015
2010	5,065	36,951	42,016
2011-2015	82,565	177,814	260,379
2016-2020	164,255	149,621	313,876
2021-2025	235,595	97,915	333,510
2026-2030	267,190	36,323	303,513
	<u>\$ 772,815</u>	<u>\$ 648,274</u>	<u>\$ 1,421,089</u>

Lakeview North and South Line Promissory Notes—

On September 28, 2004, Sound Transit acquired a section of the Lakeview Subdivision between Lakewood and Nisqually called the North Line in exchange for a payment of \$6 million and a \$6 million promissory note payable to BNSF in September of 2006. In November, 2004, a replacement note was agreed upon whereby if the south parcels were acquired (the "South Line") then \$3 million of the note becomes due on September 28, 2005, with the balance of \$3 million due at maturity on September 28, 2006.

The South Line acquisition closed on October 3, 2005, resulting in the change in the terms of the North Line note as described. In addition, Sound Transit paid \$3 million and assumed a promissory note payable of \$9 million to BNSF with a payment due of \$3 million on September 28, 2006, and \$6 million on September 28, 2007. These promissory notes were non-interest bearing and, in accordance with generally accepted accounting principles, have been discounted to reflect the imputed interest cost to the Agency.

10. COMPENSATED ABSENCES

Compensated absences are as follows:

(in thousands)	2005	2004
Balance, beginning of year	\$ 2,599	\$ 2,412
Additions	2,700	2,603
Reductions	(2,292)	(2,416)
Balance, end of year	\$ 3,007	\$ 2,599
Less amounts due within one year	(982)	(994)
Long-term portion	\$ 2,025	\$ 1,605

Amounts due within one year are included in accrued salaries, wages, and benefits (see Note 8).

11. ASSET RETIREMENT OBLIGATIONS

In the course of entering into agreements with other governments and rail providers to construct the Agency's capital assets used in providing transportation services, certain of those agreements contain clauses which impose a legal burden on the Agency to remove all or a portion of those constructed assets at the termination of those agreements. FASB 143 and FASB Interpretation 47, effective for financial statements issued after June 15, 2002, and December 18, 2005, respectively, require that these costs and related obligations be recognized where they exist. Sound Transit is implementing these standards in 2005, and, in accordance with the pronouncement, this change is being treated as a change in accounting principle, with any asset retirement costs being measured as of the date the asset retirement obligation was incurred, with the cumulative effect of changing to this new principle being included in net income in the current period.

Accordingly the cost to remove the assets and the associated liabilities has been recorded as follows:

(in thousands)	2005
Sounder station platforms	\$ 645
Tacoma Link surface rail	1,064
	1,709
Cumulative-effect of accretion expense	211
	1,920
Current year accretion expense	95
Total asset retirement obligations	\$ 2,015

12. RESTRICTED NET ASSETS

Restricted net assets consist of the following:

(in thousands)	2005	2004
Contractual arrangements	\$ 110,347	\$ 156,109
Unspent bond proceeds, net of related obligations	8,658	-
Deductible liability protection policy	6,372	6,799
Debt service, net of related obligations	4,270	-
State appropriation	2,152	-
	\$ 131,799	\$ 162,908

13. EMPLOYEE BENEFITS

Sound Transit provides a defined contribution money purchase plan and trust ("401(a) Plan") to its employees. Prior to December 31, 1999, employees had a choice of participating in either the 401(a) Plan or in the Washington Public Employees' Retirement System ("PERS"). In 1999, the Washington State Legislature amended the laws governing PERS requiring employers either to terminate their participation in PERS or permit all new employees to participate in PERS regardless of their simultaneous participation in a 401(a) plan. Effective December 31, 1999, Sound Transit terminated its status as a PERS employer with regard to all employees hired after that date. Individuals who were active members at that date are eligible to continue their membership in PERS for the duration of their continuous employment with Sound Transit. At December 31, 2005 and 2004, there was one employee participating in PERS (three employees at December 31, 2003).

A summary of the 401(a) Plan is as follows:

401(a) Plan—A defined contribution money purchase plan and trust was established for the Agency in 1994 with the adoption of Board Resolution No. 32. This was amended by Resolution No. 100 in 1997 to recognize the contribution made to Sound Transit by its employees. The ICMA Retirement Corporation administers the Central Puget Sound Regional Transit Authority Pension Plan and serves as the plan's trustee. This plan is a fixed employer system, and membership in the system includes all full-time Sound Transit employees and elected officials. The

vesting schedule of the plan is 20% immediately upon employment, 40% after one year of service, 60% after two years, 80% after three years and 100% after four years. Employees are responsible for directing the investment of their contributions and Sound Transit's contributions.

Any eligible employee who was employed on the effective date of this plan was eligible to participate in the plan. Any other eligible employee shall be eligible to participate on the first day of employment.

Sound Transit's actual contribution rates, which were the required contribution rates, are expressed as a percentage of covered payrolls. The amount of covered payroll during 2005 and 2004 was \$25.3 million and \$24.9 million, respectively, and total payroll was \$25.6 million and \$25.5 million, respectively. The required contribution rates expressed as a percentage of covered payroll and required Sound Transit contributions during 2005, 2004 and 2003 are as follows:

	Contribution Rate		
	2005	2004	2003
Employer	12%	12%	12%
Employee	10%	10%	10%
Total	22%	22%	22%

	Contributions (in thousands)		
	2005	2004	2003
Employer	\$ 3,038	\$ 2,985	\$ 2,562
Employee	2,532	2,488	2,135
Total	\$ 5,570	\$ 5,473	\$ 4,697

14. RISK MANAGEMENT

In the ordinary course of its normal operations, Sound Transit is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to persons; and natural disasters. Sound Transit has established a comprehensive risk management program, utilizing the purchase of commercial insurance that has in force first-level coverage for property, liability, employment practices and crime and fidelity to provide protections from these exposures. Such coverage includes self-insured, per claim retention insignificant to Sound Transit's risk of loss. There

have been no changes to the policy since inception and no settlements have exceeded coverage under the plan.

Sound Transit has also established an Owner-Controlled Insurance Program ("OCIP") for all general liability claims by third-party injuries and/or property damage related to project construction activities carried out by third-party contractors. This commercially-procured insurance program includes a self-insured retention level of \$500 thousand per claim. This program originally covered construction projects from January 1, 2001, through December 31, 2006, and all premium payments under the policy had been prepaid. During the year a policy extension was negotiated through December 31, 2009.

In addition, Sound Transit has also entered into a deductible liability protection policy to supplement the self-insured retention portion of the OCIP. Under this policy the probable maximum claims exposure, estimated at \$6.5 million, has been deposited with the insurer in an interest-bearing loss fund account.

15. COMMITMENTS AND CONTINGENCIES

Operations and Maintenance Agreements—In 2004, Sound Transit entered into five-year agreements which expire September 2009 with Community Transit, King County Department of Transportation and Pierce Transit ("purchased transportation providers") to operate its ST Express public transportation service within Sound Transit's service area. Effective January 1, 2005, through the end of the agreement, service will be compensated based upon a fixed fee agreed to annually, with certain items subject to variable pricing, such as fuel and special services.

Sound Transit also entered into 40-year agreements in May of 2000 with BNSF and Amtrak for the operations and maintenance of its Sounder commuter rail service. Under the BNSF agreement, Sound Transit pays in accordance with an hourly rate schedule per train mile that is based on the number of trains per day. Under the Amtrak agreement, Sound Transit pays a flat monthly fixed price dependent upon the number of one-way trips. See related agreements described in Note 6: Amtrak Lease/Sublease.

Agreements with BNSF for Sounder Commuter Rail Service in the Everett-to-Seattle and Lakewood-to-Tacoma Corridors

On December 18, 2003, Sound Transit entered into a number of agreements with BNSF for, among other things, the purchase of four perpetual easements for commuter rail service between Everett and Seattle, the purchase of railroad right-of-way between Nisqually and Tacoma for service and station improvements, terms for joint use of the railroad right of way and the purchase of operation services in each corridor.

The acquisition of the easements and property occur over a four-year payment period. The first easement in the Everett-to-Seattle corridor closed in December 2003 and the second easement closed in December 2004, each in exchange for a payment of \$79.0 million, and allowing the operation of one round trip commuter train service between Everett and Seattle. Also in December of 2003, Sound Transit paid BNSF \$3.6 million for the purchase of certain parcels of property that will become part of the Lakeview Station and South Tacoma Station and \$4.4 million as a non-refundable deposit for the purchase of railroad right of way on the BNSF's Lakeview Subdivision.

In September 2004, Sound Transit closed on the purchase of the section of the Lakeview Subdivision between Lakewood and Tacoma (the "North Line") and in October 2005 the section of the Lakeview Subdivision between Nisqually and Lakewood (the "South Line"). See Note 9 for a description of amounts paid at closing and promissory notes provided to BNSF.

The acquisition of the remaining easements in the Everett-to-Seattle corridor will close as follows:

	Closing Date	Due on Closing
3rd Easement	December, 2006	\$50 million
4th Easement	December, 2007	\$50 million

Each easement allows the addition by Sound Transit of one round trip commuter train service. Closing by Sound Transit on the third and fourth easements are conditioned upon the lack of a determination that certain permits for improvements that BNSF is designing to construct are highly unlikely to be

issued. If this condition is not met, Sound Transit has the option to not close with no additional payment due and no additional train service beyond that provided by prior accepted easements.

The easement acquisition agreements also contain post-closing options for Sound Transit for the resale of the second, third and fourth easements to BNSF should it appear that permitting will not be allowed. These options may be exercised as follows:

	Earliest Exercise Date	Latest Exercise Date	Exercise Price
2nd Easement	Nov. 2006	Nov. 2010	\$27.5 million
3rd Easement	Dec. 2008	Dec. 2012	\$50 million
4th Easement	Dec. 2009	Dec. 2013	\$50 million

Total payments in respect of the Nisqually-to-Tacoma corridor under the agreement to BNSF are \$32 million, including interest on the promissory notes.

The Joint-Use Agreement for the Everett-to-Seattle corridor provides the mechanisms for determining the cost to Sound Transit for the maintenance-of-way and rehabilitation activities on the corridor. The Joint-Use Agreement also provides the conditions necessary to be satisfied by Sound Transit (such as the acquisition of certain environmental permits) before it may use its commuter rail easements. The Joint-Use Agreement for the Lakewood-to-Tacoma corridor sets forth the cost to BNSF for the maintenance of way and rehabilitation activities on the corridor and Sound Transit's and BNSF's responsibilities during the interim period before Sound Transit starts operating on each portion of the corridor. Initially, BNSF will retain all maintenance activities associated with the line. However, as Sound Transit incrementally commences construction of the line, Sound Transit will be responsible for maintenance activities on those sections.

The Everett-to-Seattle Commuter Rail Service Agreement set forth the terms for the actual operation of the commuter trains by BNSF and the compensation paid to BNSF for train crews, maintenance-of-way and other expenses incurred in the operation of the Sounder service between Seattle and Everett. The compensation is structured to provide flat rates for maintenance and crews with inflation adjusters plus performance incentives

after the initial pre-construction period. The term of the agreement is for 12 years with an option of five additional years that must be agreed to by both parties, for a maximum term of 17 years. In addition, a first amendment was executed to the existing long-term agreement for commuter service from Seattle to Tacoma, covering service for the Lakewood-to-Tacoma corridor, provided Sound Transit eventually operates in the corridor.

Purchases—At December 31, 2005 and 2004, Sound Transit had outstanding commitments of approximately \$916.0 million and \$910.7 million, respectively.

Grants—Sound Transit participates in several federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that Sound Transit has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at December 31, 2005 and 2004, may be impaired. In the opinion of management, there are no significant contingent liabilities relating to non-compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Claims—In the ordinary course of business, Sound Transit has been named as a defendant in a number of lawsuits relating to personnel and contractual matters. Although the ultimate outcome, if any, of these matters is presently unknown, management has evaluated all claims and potential claims and where that exposure is probable, has reflected in the accounts of the Agency its best estimate. At December 31, 2005, \$16.6 million has been recorded in construction in progress and a corresponding liability accrued. In addition to exposures on claims and potential claims that are probable, Sound Transit also believes there may be exposure to claims or possible claims. The value of such claims or possible claims is estimated to be \$2 to \$3 million, the cost of which would be an increase to construction in progress, with a corresponding increase to other

liabilities. In addition, Sound Transit has been named in the following legal actions:

Pierce County, City of Tacoma, King County, Sound Transit, et al v. State of Washington, King County Superior Court

The defendant/interveners contend that Sound Transit is not a validly-formed government and is not entitled to impose the 0.3% motor vehicle excise tax authorized and imposed pursuant to RCW 81.104.160 and that Initiative 776 (I-776) repealed Sound Transit's ability to collect the tax. These claims were dismissed last year and are now pending appeal. In the event the defendant/interveners are unsuccessful and Sound Transit is legally entitled to continue to collect the tax through 2028 (because the Agency pledged to collect the tax to repay outstanding 30-year bond debt sold before I-776 was enacted), then the defendant/interveners alternatively seek a court order defining what limits apply to Sound Transit's ability to collect or use the tax.

In the appeal, the Washington attorney general supported Sound Transit's position that it is a validly-formed government and that the tax must continue to be collected. But the attorney general asked that the Washington Supreme Court limit the tax revenue to bond repayment. The Supreme Court is expected to rule on the issues in the fall or winter of 2006.

16. SUBSEQUENT EVENT

Subsequent to year-end, the federal government enacted the Tax Increase Prevention and Reconciliation Act of 2005 (the Act), which imposes an annual excise tax on entities described in IRC sections 501(c) and 170(c) that participate in certain types of tax shelter transactions. Sound Transit participated in a lease transaction involving rail coaches and locomotives with a commercial organization which is likely to be covered under the Act. Under the Act, Sound Transit is not liable for taxes related to this transaction as of December 31, 2005, but may be for 2006 and future years. Management is currently assessing the potential impact of the Act on Sound Transit for future periods but has not yet completed that assessment.

Statistical Data (UNAUDITED)

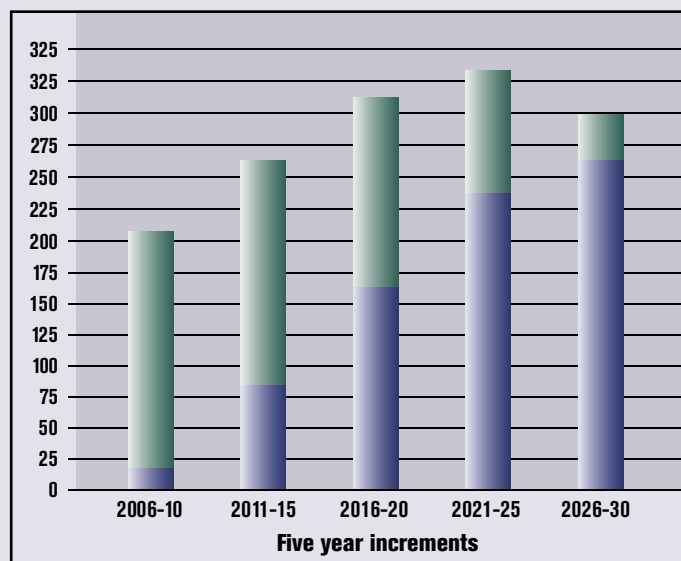
REVENUE BY SOURCE

\$ in thousands										
Year	Passenger Fares	Sales/Use Tax	Motor Vehicle Excise Tax	Rental Car Tax	Investment Income	Grants	Other Revenue	Total Revenues		
2001	\$ 8,820	\$ 209,752	\$ 56,123	\$ 2,182	\$ 60,207	\$ 56,293	\$ 6,089	\$ 399,466		
2002	9,225	204,566	58,319	2,151	42,922	87,842	2,949	407,974		
2003	11,625	206,665	61,189	2,182	20,020	33,568	4,576	339,825		
2004	13,205	219,020	64,714	2,166	10,626	96,459	3,418	409,608		
2005	16,483	239,785	66,308	2,245	26,090	142,485	3,381	496,777		

OPERATING EXPENSES BY TYPE

\$ in thousands	2001	2002	2003	2004	2005
Labor	\$ 15,824	\$ 16,377	\$ 19,315	\$ 21,486	\$ 22,402
Fringe Benefits	8,718	7,425	9,478	10,954	11,524
Services	19,223	16,735	17,017	19,079	23,788
Materials & supplies	1,741	1,668	1,825	2,307	3,470
Utilities	706	800	922	957	989
Insurance	1,637	1,507	2,632	3,127	4,697
Taxes	237	593	281	499	618
Purchased Transportation	34,463	37,261	43,536	50,023	55,350
Miscellaneous	1,372	1,738	2,587	2,763	3,381
Leases & rentals	2,822	2,922	2,238	2,267	2,204
Total before depreciation, disposals and capitalized indirect expenses	86,743	87,026	99,831	113,462	128,424
Depreciation & Disposals	10,841	14,352	17,570	23,877	35,041
Capitalized Indirect Expenses, Net	(20,219)	(13,889)	(21,941)	(25,148)	(24,012)
\$ 77,365	\$ 87,489	\$ 95,460	\$ 112,191	\$ 139,453	

DEBT SERVICE REQUIREMENTS TO MATURITY



\$ in millions

Principal Interest

2005 DEBT CAPACITY (UNAUDITED)

Assessed Valuation in 2004 for collection of taxes in 2005	\$297,909,433,637
Maximum nonvoted debt (1.5% of assessed valuation)	\$4,468,641,505
Less: Series 1999 and 2005A Bonds	\$772,800,000
Nonvoted debt capacity remaining	\$3,695,841,505
Maximum voted debt (5% of assessed valuation)	\$14,895,471,682
Less: Series 1999 and 2005A Bonds	\$772,800,000
Voted debt capacity remaining	\$14,122,671,682

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